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# ARED

Economic and Social Research for Rural America

## News

*Bulletin*

Spring/Summer 1990

Agricultural and Rural Economy Division  
Economic Research Service  
U.S. Department of Agriculture



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# ARED

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Economic and Social Research for Rural America

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# News

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**Cover:** An old mill relocated to Babcock State Park in West Virginia.

## ARED DIRECTORY

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**NOTE:** Effective October 29, 1990 these are the new ARED telephone numbers. Most employees can be reached by replacing the first four digits of the old number with 219-0 (example: 786-1785 becomes 219-0785)

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Ducks migrating near Ogden, Utah.

## ARED REFLECTIONS

### Quint, GATT and Rural Development

By Dick Long

Agriculture ministers and top advisors from the European Community, Japan, Canada, Australia and the U.S. met for three days at the end of July in Ireland to discuss progress in GATT negotiations on agriculture.



Dick Long

Secretary Yeutter attended as did our Assistant Secretary, Bruce Gardner. Called the Quint Meeting because the five largest parties to the GATT negotiations participated, the session was unusual in including rural development as a major focus.

The Australian Minister for Primary Industries and Energy, John Kerin, was responsible for preparing a paper with his country's views to open the rural development phase of the discussion. Assistant Secretary Gardner gave the U.S. response.

The Assistant Secretary asked ARED to provide information to help him prepare. But since the Australian paper had not arrived even by the time he departed for Ireland, he was left to improvise his presentation, which reportedly went well. I was not at the meeting and therefore cannot say anything about what he said, other national responses, or the discussions that followed. However, after the meeting we received a copy of the Australian theme paper which I will describe briefly.

**The Australian View.** It is a sharp attack on price support programs as rural development policy. In it Mr. Kerin rejects the claim that high levels of support and protection maintain the fabric of rural life and prevent the countryside from being deserted. On the contrary, he says, support programs do not trickle down to rural communities, they are capitalized into land prices, and, if anything, hasten the drift of rural people to the cities.

He argues that generous farm policies also cause environmental damage, encouraging excessively intensive farming, including heavy use of fertilizers and pesticides. He quotes the World Wildlife Fund, saying, "the Common Agricultural Policy has been the single most important cause of the destruction of wildlife habitat in the EC."

The Australian Minister also notes the high costs of protection to consumer and taxpayers and the comparative wealth of the beneficiaries, but focuses his sharpest attacks on what protection in the developed countries costs the people, especially farmers, in developing countries:

It seems ironic that the poorest nations on earth are expected to feed themselves and develop a capital surplus to pay off debts without subsidies while rich nations restrict access to their markets by poorer countries, distort world markets with export surpluses and subsidies, and yet somehow pretend that their agriculture cannot survive or develop without massive subsidies.

**Six Non-market Strategies.** Mr. Kerin lists six non-market approaches to rural development. They are: targeting de-coupled assistance on low income farmers with special needs; enhancing human capital formation and other productivity improvement; facilitating structural adjustment; encouraging regional economic activities, expanding local opportunities, and improving amenities in rural areas; promoting sustainable and lower input agriculture; and providing special decoupled measures for disadvantaged remote regions or areas with unique features that should be preserved.

The Australian paper in some places draws on the OECD council's rural development task force report mentioned by Ken Deavers in the most recent *ARED News*. The paper clarifies the Canadian and Australian views on rural development and agricultural protection in the GATT negotiations which were previously articulated in the OECD task force meetings. Their views are similar to U.S. views on agricultural trade liberalization. A major reason for the attention to rural development in OECD is that it much more logically addresses the rural problems commonly used to justify agricultural protection.

### Getting to Know the Federal Women's Program

The responsibility of the Federal Women's Program (FWP) is to ensure that Federal Agencies institute plans and take affirmative steps to provide equal opportunity to women applicants and employees in all areas of employment (recruitment, hiring, training, promotions, and awards).

The Federal Women's Program is needed because many women employees and managers are unaware of the employment and advancement barriers that women face. One objective of the FWP is to identify problems and solutions with respect to the recruitment and advancement of women in government.

In October 1967, Executive Order No. 11375 added sex to other prohibited forms of discrimination such as race, color, religion and national origin. In response to this, the Civil Service Commission (now the Office of Personnel Management) established the Federal Women's Program. Another Executive Order in 1969 integrated the FWP into overall Equal Employment Opportunity Program and placed the FWP under the direction of Directors of Equal Employment Opportunity for each federal agency.

P.L. 92-261: The Equal Employment Opportunity Act of 1972, brought federal employees and agencies under the EEO provisions of the Civil Rights Act of 1964 and gave OPM additional enforcement powers to ensure that all personnel actions in government are free from discrimination. OPM regulations require that federal agencies designate a Federal Women's Program Manager to advise the Director of EEO on matters affecting the employment and advancement of women and that federal agencies allocate sufficient resources for their Federal Women's Program.

The ERS administration supports the Federal Women's Program. Support the Federal Women's Program. The Coordinator provides a means by which women of the Economic Research Service can communicate their concerns to management. Feel free to discuss ideas or proposals on how to improve the employment and advancement opportunities for women, or any questions concerning the Program with ERS's Federal Women's Program Coordinator, Cheryl Johnson, 786-1805.

## OFFICE OF THE DIRECTOR

### **Papers Presented & Meetings Attended**

**Ken Deavers, Sara Mazie, and Norman Reid** participated in an "International Symposium on Economic Change, Policies, Strategies, and Research Issues" held at Aspen, Colorado, July 4-8. The conference focused on the structural adjustments occurring in the rural economies of Europe, Canada, and the U.S., the political and policy shifts occurring as a consequence, and the fit between these broad changes and local development strategies. **Norman Reid** co-organized the symposium, which ERS co-sponsored with the Aspen Institute and the University of Missouri.

On July 25, **Norman Reid** attended a meeting of the Organizations Concerned about Rural Education (OCRE), a group representing all major education agencies, as well as the Departments of Agriculture (Extension), Commerce, and Education. OCRE has developed a proposed project

to build rural economic development into school activities. Currently, it is seeking funding for a demonstration project in North Dakota which would later be expanded on a national scale.

**Sara Mazie**, assistant director for Rural Development Situation and Outlook, attended the Farm Credit Leadership Conference, "The Future Is Now," sponsored by Farm Credit Services in Des Moines, Iowa, September 5. Sara made a presentation on the evolving relationship of agriculture to the rural economy, and the changing performance of the rural economy over the last few years.

### **Briefings & Miscellaneous**

**Dick Long** met with Mr. Murray Jolivette, Director of The Leadership Institute for Small Municipalities (LISM) in July. The Institute conducts training programs for black mayors of small towns in a few southern states. Long described ERS's research program and data resources, noting the gap between our work and the applied needs of small town mayors. Long also indicated that ARED will serve as a resource for information, etc. on questions of broad applicability.

**Norman Reid** has been working with the Under Secretary for Small Community and Rural Development to implement the President's Rural Development Initiatives, announced in January. The centerpiece of the initiatives is the creation of State rural development councils comprised of the heads of Federal departments and agencies in each State. On a pilot basis, councils are being created in eight States--Kansas, Maine, Mississippi, Oregon, South Carolina, South Dakota, Texas, and Washington. In conjunction with State governments, the councils will be responsible for assessing their resources and the needs in their states and developing a strategy for addressing those needs. The councils will also serve as a point of communication between States and the Federal Government, and as a means of resolving interdepartmental issues related to rural development. The councils will be staffed by a senior, full-time executive director. A National Rural Economic Development Institute has been created at the University of Wisconsin to conduct a two-week training program for the council members. The pilot phase will be completed by mid-1991, and implementation of the program in all 50 States is expected to begin by the end of 1991.

**Norman Reid** and Tom Rowley (FDP) are staffing the National Commission on Agriculture and Rural Development Policy, a presidentially-appointed commission created by the 1985 Farm Bill. The Commission, which issued a report on farm policy issues in 1989, is devoting 1990 to an examination of rural development policy issues. Since the beginning of the year the Commission has

traveled to many areas of the United States to observe rural conditions and programs first-hand. Among the areas visited are rural Wisconsin, western North Carolina, the Mississippi Delta, central Nebraska, Montana, a Navajo reservation in New Mexico, and the Rio Grande Valley of Texas. The Commission report, including recommendations on Federal policy for rural development, will be presented to the President and Congress in December.

## Personnel

At the annual USDA awards ceremony, Norman Reid was presented the USDA's Superior Service Award by Secretary Clayton Yeutter for his work in drafting the report of the Secretary's Task Force on Rural Revitalization, *"A Hard Look at USDA's Rural Development Programs"*. The award cited Reid for "critical contributions of substance and his leadership role on the Secretary's Rural Revitalization Task Force."

## IN THIS ISSUE RDP

The June-September 1990 issue of *RDP* contains:

**"Service Sector Offers More Jobs, Less Pay," by Shirley Porterfield.** U.S. manufacturing lost over a million jobs in 1981-86, but the services sector gained over 12 million jobs, more than making up for that loss. Many service jobs, however, especially those in rural areas, pay salaries much lower than manufacturing jobs. In addition, service firms make more use of part-time workers.

**"Rural Displaced Workers Fare Poorly," by Paul Swaim.** When the pink slips are given out, rural workers have a tougher time finding new jobs than urban workers. Rural workers tend to be unemployed longer and more often take a pay cut at the new job. Those most vulnerable to layoffs are high school dropouts and production workers, who lack skills needed in other jobs.

**"Decade of Pessimistic Nonmetro Population Trends Ends on Optimistic Note," by Calvin Beale and Glenn Fuguit.** Nearly 2 million people moved out of nonmetro areas in 1980-88, but nearly the same number moved in, so the net loss was only about 22,000. That's a big turnaround from the 1970's, when rural population rose by 4.5 million. But because of recent improvements, it's also a big shift from just 2 years ago, when the losses looked even grimmer. Recent hot spots for rural growth: retirement and manufacturing counties.

**"Foreign Investment Boosts Rural Economies," by Amy Glasmeier and Norman Glickman.** About 10 percent of foreign investment in U.S. industry finds its way into rural areas, nearly half of it into the South. Based on interviews with foreign-controlled auto-related firms, low wages and a lack of unionization history in the area were major enticements, along with any infrastructure support the community may provide.

**"Small Towns Lack Capacity for Successful Development Efforts," by B. J. Reed and David Paulsen.** Most small towns just don't have the necessary critical mass of people to succeed with local development efforts. Small towns with a dedicated group of development supporters with expertise in the field and good connections with the business community are the exception. Lacking that, such towns often cannot put together a successful package to win State grants or other competitively awarded State aid, no matter how great their need.

**"Increases in Rural Income May Not Help Small Town Retailers," by David Henderson and Fred Hines.** A paradox to be sure, but increases in local income may translate to lower spending in small town retailer businesses. With more income, many consumers apparently travel to larger towns nearby for a better choice of merchandise.

**"Poverty Among Rural Workers," by Elizabeth Morrissey.** A major contributor to poverty is inability to work full-time year-round, either because few jobs are available or because other factors interfere with such a work schedule. For one-parent families, the need to care for children, especially young children, limits the time that can be spent on a job. Even with a full-time year-round job, many are still in poverty.

**Rural Indicators: "Nonmetro Counties Less Dependent on Farming, Manufacturing, and Mining," by Thomas Hady and Peggy Ross.** A few decades ago, most of rural America was farming country. If you knew how a new policy would affect agriculture, you knew how it would affect much of rural America. Now, the social and economic structure of rural America has become highly diverse and dynamic.

Book Reviews and Short Subjects, including "Even in Small Towns, Street Trees May Need Help"; "New Angle on Fishing Gets Some Nibbles"; "Marketing Strategies for Rural Hospitals"; "A Program for Economic Development in Small Communities"; "Fulfilling Work's Promise"; and "Satisfied Citizens?" contributed by Louise Stutzman. "Pesticide Residues in California Well Water" and "Marketing Small Towns," compiled by Tom McDonald.



Officially licensed farm machinery

## Rural Development Perspectives

Articles in upcoming issues of *RDP* include:

- A comparison of employment growth in urban and rural areas.
- The implications of lower educational aspirations of rural high school students for rural development.
- Income of the rural elderly--its composition and economic implications.
- Financing rural elementary and secondary education.
- Forest Service timber policies and their relationship to community stability.
- An examination of the origin of lower loan rates in rural areas in the 1980's.
- The relationship of education to local growth in a changing economy.
- Off-farm income helped small farmers survive the 1980's debt crisis.

## Rural Conditions and Trends

The Summer 1990 issue of *Rural Conditions and Trends* contains the following articles:

**OVERVIEW:** "Rural Areas Join Nation in Economic Slowdown," by **Sara Mazie**. The slower rate of national economic growth has now spread to rural areas.

**NATIONAL ECONOMIC CONDITIONS:** "Economic

Slowdown Softens Job Growth," by **Karen Hamrich** and **Elizabeth Mack**. First half employment gains were weak, but reviving manufacturing production should strengthen second half job growth. However, moderate economic growth and lower inflation may allow interest rates to decline.

**EMPLOYMENT:** "Rural Employment Growth Slows," by **Tim Parker**. Rural employment growth slowed by almost 2 percent in the first quarter of 1990 compared with the same period in 1989, extending a trend that began in the second half of 1989. Rural growth slowed most during 1989 in the Midwest and in farming-dependent counties.

**UNEMPLOYMENT:** "Rural Unemployment Held Steady in First Quarter 1990," by **Leslie Whitener**.

Rural unemployment rates did not change between first quarter 1989 and 1990. However, rural employment fell in all economic types of counties and all regions except the Northeast during 1989.

*Rural Conditions and Trends* is published four times per year. Subscription price is \$14 for 1 year. Send check or money order to ERS-NASS Box 1608, Rockville, MD 20849-1608. Make check or money order payable to ERS-NASS. You can charge your subscription to VISA or MasterCard. Use the toll-free telephone number 1-800-999-6779 to start your subscription.

## NATIONAL ECONOMY AND HISTORY BRANCH

### View from the Branch

by Tom Hady

On August 6, I passed 30 years of Federal service, 28 with USDA. (I'll consider retirement when I reach middle age.) That gives me an excuse to reflect on ERS and what's happened to it in the last 30 years.

A lot has happened. When I joined up, they were just rebuilding ERS after the diaspora of 1953-61. A lot of our work was aimed at rural problems that were outside the reach of national policy. The idea was that the 50 States provided 50 laboratories, but only if someone helped

analyze what worked and why. For example, the section I started work in had one researcher more or less full time on the problems of differential assessment of farmland, another on local government in the rural-urban fringe, and a third, in the field, on financial problems of Iowa counties.

We had a heavy emphasis on farm management. If you needed to know how they typically grew beef in Montana, you generally had only to walk down the hall to find an expert. If not, 20 percent of the staff was in the field, and the field man in Montana knew more than you wanted to hear. I worked with Treasury during that period on a couple of revisions of the Internal Revenue Code as it affected farmers, and I seldom had to look outside ERS for answers to fairly technical questions about how "real" farmers (as opposed to "hobby" farmers) typically operated. That depth of expertise is now much harder to find.

On the other hand, the scope of national policy has broadened, and ERS has been called on to provide information on a whole variety of subjects that were barely on the agenda then. Rural development was starting to surface in a modern form, but it was still defined mostly as "low income farmers." Rural development waxed to a major concern in the late 60's and early 70's, waned in the late 70's and early 80's and now shows signs of beginning the cycle anew. ERS made major contributions to rural development. Resource economics in the early 1960's was still traditional land economics. Then came the environmental movement, and ERS changed to provide information useful to the formulation of environmental policy.

I view the changes with mixed feelings. I think ERS is much the worse for the loss of "beyond the beltway" perspective that occurred with the departure of the field staff. But I'm proud of the way we have responded to new needs for new research to support new policies. I regret what I see as a decline in the importance attached to research to serve rural people, as opposed to national policy makers. However, as I look at the tendencies of many State universities to regard nothing but articles in refereed journals as relevant to tenure decisions, I believe that ERS has maintained that commitment comparatively well. On balance, I think I'm proud of the professional way our organization responds to changing needs.

Personally, while I have worked in the same organization for 28 years, I have changed jobs more times than I can count--often without changing job title. That makes coming to work interesting.

#### Publications

"An Update, The Diverse Social and Economic Structure of Nonmetropolitan America", ERS Staff Report, *AGES*

9036, by Tom Hady and Peggy Ross (HRI) provides a first look at how rural counties have changed in terms of the county classification for policy purposes ERS worked out in the early 80's. Hady and Ross are at work on a further update, with a team consisting of Calvin Beale (HRI), Donald Bellamy (HRI), Herman Bluestone (HRI, retired), Tom Carlin (FRE), Ken Deavers (OD), Bernal Green (FRE, retired), Elizabeth Morrissey (HRI) and John Redman (FDP).

The February-May issue of *RDP* included two book reviews by Tom Hady. The first, "Sustaining Agriculture Near Cities," by Lockeritz, W. (1987), Soil and Water Conservation Society, Ankeny, Iowa and "Demands on Rural Lands: Planning for Resource Use," Cocklin, C., Smit, B., and Johnson, T., (1987) Westview Press, Boulder, CO.

### National Aggregate Analysis Section

#### Publications

"Factor Intensity of U.S. Agricultural Trade," *AER-637*, released in late August and written by Darryl Wills and Chinkook Lee, explores the role of U.S. agricultural exports as a market for factors of production and conversely the role of factor endowments in explaining agricultural trade. In 1987 production related to U.S. agricultural exports employed an estimated 884,000 workers throughout the economy and used an estimated 107 million acres of harvested cropland. In 1987, for each \$1 million, U.S. agricultural exports required approximately 31 workers and 3,500 harvested acres, compared with 39 workers and 4,300 harvested acres in 1977. These changes in factor intensity, the amount of a factor (land, labor, or capital) required economywide to produce \$1 million of agricultural exports, reflect changes in prices, commodity composition, and factor productivity. Compared with agricultural imports, U.S. agricultural exports are capital and land intensive.

"Dynamic Corn-Broiler Price Relationships: The Cases of the United States and Canada," by Ron Babula and Robert F.J. Romain, Laval University in Quebec, Canada, appeared in the July, 1990, issue of *Agribusiness: An International Journal*. The article presents monthly vector autoregression models of corn, farm broiler, and retail broiler prices for the U.S. and Canada. The authors impose a one-time corn price increase to simulate potential broiler price impacts of feed cost increases which may arise from the U.S.-Canada Free Trade Agreement on each model. They examined and compared the impulse response patterns of farm and retail broiler prices for the U.S. and Canada to this feed price shock. They found U.S. broiler price increases would occur immediately; would last 30-32

months; and would last longer and be more volatile than the Canadian broiler price responses.

Ron Babula and Robert Romain also published an article, "Canada Insulates Broiler Prices," in the May, 1990 issue of *Agricultural Outlook*. They estimated monthly vector autoregressions of U.S. and Canadian broiler prices, farm and retail, for periods before and after Canada's 1979 broiler supply management program. Canadian price response patterns from U.S. price increases imposed on each model have either lessened in magnitude and duration, or disappeared since Canada implemented their 1979 measures.

In June, ERS released a staff report, "The USDA/ERS Computable General Equilibrium (CGE) Model of the United States," *AGES 9049*, written by Sherman Robinson, Maureen Kilkenny, and Kenneth Hanson. This paper documents the basic Computable General Equilibrium (CGE) model of the U.S. economy developed at the Economic Research Service (ERS). The paper describes both the model equations in detail and how the model is "benchmarked" to a base data set. It also lists the computer program used to implement the model. The objective of the CGE program at ERS is to provide a multisector framework for analyzing the effect of changes in agricultural policies and exogenous shocks on the farm sector, the rural economy, related nonfarm sectors, and on the rest of the economy. The basic model has provided a starting point for a variety of extensions and applications exploring several policy issues. To date, work has largely focused on issues of agricultural trade policy and the effect of alternative domestic policies.

#### **Papers Presented & Meetings Attended**

Professor Sherman Robinson, University of California, Berkeley presented a paper written with Kenneth Hanson, "Data, Linkages, and Models: U.S. National Income and Product Accounts in the Framework of a Social Accounting Matrix" at a conference on "A SAM for Europe," September 3-4, 1990 in Valencia, Spain. The paper is a revised version of the ERS Staff Report *AGES 89-5* which presents a macro SAM for the United States and a Hanson developed bridge (mapping) between the National Income and Product Accounts and a macro SAM.

Ken Hanson presented a paper "Chaotic Crusoe: Models of Adaptive Economizing with Incomplete Knowledge" at the Western Economic Association Meetings in San Diego, June 30. Ken's paper was part of a session where several former students of Professor Richard Day, University of Southern California, Los Angeles, presented papers on related work on dynamic economic models where economic agents are boundedly rational.

**Karen Thierfelder** presented a paper, "The Impact of Trade Policy when Labor Markets are not Perfectly Competitive," to the Interagency Economywide Modeling group on May 18, 1990. The paper uses a four sector version of the USDA/ERS/CGE model to compare changes in sectoral output and employment under two different assumptions about labor markets. It considers a perfectly competitive labor market in one scenario and exogenous wage distortions in the other. Thierfelder found that exogenous wage distortions do not significantly alter the domestic changes that follow either a complete tariff elimination, a devaluation, or an export subsidy that targets industries paying a high wage differential.

Chinkook Lee presented a paper, "An Analysis of North Korea's Attempts at Economic Development: With Special Reference to Agriculture" at the joint Korean-America Economic Association and Korean Economic Association this August in Seoul, South Korea. Chin also organized a symposium for the AAEA meetings in Vancouver. The AAEA accepted his proposed symposium but complications in his travel to Korea required Gerald Schluter to attend the AAEA meetings to present Chin's part of the symposium. Chin's paper, "How Agricultural Sectors of the



*A tobacco field in Halifax County, Virginia.*

U.S. I/O Tables are Constructed," appeared in the session "Applications of Input-Output Analysis to Agricultural and Rural Research -- Problems and Prospects."

Ron Babula coauthored with Ted Covey (FDP), "Testing Fisher's Hypothesis for Agriculture," for presentation at the NC-161 meetings at the Federal Reserve Bank of Kansas City, Kansas City, MO. The paper is discussed in the *Finance and Development Policy Branch* section of this newsletter.

### Upcoming Events

Andy Bernat will present a paper coauthored with Professor Thomas Johnson, VPI, "Applying Input-Output Models to Natural Resource Problems: The Conservation Reserve Program" and Gerald Schluter will discuss a paper, "Impact Planning Analysis" in a session, "Natural Resources (Analytical Systems Part III)" at the Atlantic Economic Society Meetings in Williamsburg on October 11-14, 1990.

### Personnel

On July 2, Catherine Murphy joined the National Aggregate Analysis Section. Ms. Murphy will be on a Cooperative Education appointment with the University of Maryland while she continues to work on her Ph.D. dissertation. She is just finishing a year of sponsorship under the Woodward Wilson Rural Policy Fellowship.



Catherine Murphy

Her dissertation research will analyze the affect of farm price and income policies on the structure of the food and fiber system in the United States. While in the section, she will work in the Intersectoral Policy and Performance project with the Computable General Equilibrium models.

Michelle Robinson, Howard University, '91, has been working as an economic assistant in the section this summer. At Howard, Michelle majors in economics and minors in mathematics. An active member of the campus community, Michelle is president of the Abram Harris Economic Society, an undergraduate organization of economics scholars, as well as a member of the Howard University Residence Hall Choir. Although she was born in Chicago, Illinois, Michelle has spent most of her life in Washington D.C. where she now resides. After graduation



Michelle Robinson

in May, Michelle plans to work for a year before tackling graduate school and a Ph.D. in labor economic development.

Within the section she has helped do preparatory work for updating and rebasing the U.S. Food and Fiber income and employment estimates and running computer programs for members of the section.

### Agricultural and Rural History Section

### Publications

The Spring 1990 issue of *Agricultural History* included two articles by Section historians stemming from a conference last year on the history of USDA. Doug Bowers had an article on "The Economic Research Service, 1961-1977." This discusses how ERS adapted to a new agenda of agricultural research in its early years while avoiding the political pitfalls that led to the abolition of its predecessor, the Bureau of Agricultural Economics. Vivian Wiser's article, "Public Policy and USDA Science, 1897-1913," discusses the career of Secretary James Wilson, whose 16 years in the office is the longest term of any Secretary. Wilson was a strong promoter of USDA's agricultural research during a period when the Department's employment grew by nearly six times--to 14,478 in 1913, when Wilson left office.

### Papers Presented & Meetings Attended

Joel Schor presented a paper on "Fantasy and Reality: The Black Farmer's Place in American Agriculture" at a symposium on the History of the 1890 Land-Grant Colleges and Universities held June 26-29 at Florida A&M University, Tallahassee, Florida. Joel discussed the hopes and realities of black educators from the end of Reconstruction to the present. Booker T. Washington, one of the founding fathers of the 1890 system, did his best to create an independent yeomanry. But his efforts, like those of land reformers who had hoped to distribute land cheaply to black farmers after the Civil War, were unsuccessful. In recent times, the sharp decline in black farmers has led the 1890 institutions to emphasize such areas as rural development and alternative agriculture. The conference

was sponsored jointly by ERS, Florida A&M, and the Agricultural History Society. A total of 17 papers were presented on the history of agriculture, home economics, and extension work at the 1890 institutions. Wayne Rasmussen, former Chief Historian of ERS, gave a concluding statement. Overall, the symposium succeeded in bringing together a good bit of new research on the role of black institutions in American agriculture. The proceedings will be published in a future issue of *Agricultural History*. Related to the conference is an ERS-funded history of agriculture and the 1890 colleges by Leedell Neyland of Florida A&M, which will be published shortly.

### Personnel

The History Section has again been fortunate enough to have two summer employees. This year Ruth Hwang and Ted Huang have been working on a computerized index of the Section's major reports file. This will be the first of several indexes which will greatly improve access to historical documents. Ruth and Ted are both freshman engineering students at MIT and VPI, respectively. Together they have put some 2,500 items into the index in addition to doing office file work.

### Macroeconomics Section

#### Research & Analysis

Paul Sundell has been analyzing comparing the pricing of short-term agricultural and nonagricultural loans by commercial banks. The short-term rate on agricultural loans, at small banks, has typically been above comparable term nonagricultural commercial and industrial loans for most of the 1980's. According to the banking literature on loan pricing, factors that theoretically influence bank loan pricing include bank and nonbank competition for loans, bank level of risk aversion, portfolio diversification motives, credit rationing, default premium determination, borrower and lender preferences for fixed rate and variable rate loans, and the bank's choice of cost of a funds index. Data used for this project was obtained from the Federal Reserve's survey of current lending and the flow of funds accounts, and the American Bankers Associations' Farm Credit Survey. Preliminary econometric results on the importance of the various factors in loan rate determination will be available in early September.

John Kitchen has been working on updating the Section's macroeconomic model. More detail has been included in the inflation specifications within the model.

The direct incorporation of crude energy effects in the model has been particularly useful in a recent application examining the macroeconomic effects of oil price increases. Equations for the endogenous determination of the crude food component of the PPI, prices received for crops, prices received for livestock, and prices paid on production items have also been incorporated into the model.

### Publications

Jim Malley and Tom Hady recently published a "Comment" on Noel Uri's "The Structure of Agricultural Unemployment in the United States" in *Growth and Change*, Vol. 21, Number 2, Spring, 1990.

### Papers Presented & Meetings Attended

Mark Denbaly presented his paper "Deviation of Relative Agricultural Prices from the Short- and the Longrun Equilibria" at the American Agricultural Economics Association meetings in August 1990. The paper uses two common definitions of short- and longrun equilibria to construct two models that incorporate the causes of deviation of relative agricultural prices from their equilibrium levels. Departures from equilibria are the result of movements in the real exchange rate, real domestic and foreign income, real anticipated and unanticipated rates of interest, and the beginning inventory level. The longrun model can be estimated using cointegration techniques. Applications of the longrun model to wheat prices reveal that changes in the real value of the dollar, the real interest rate, and inventory are negatively related to the relative price, while fluctuations in foreign and domestic income affect the price positively. 41 percent of the deviation from the long-run equilibrium in any quarter is corrected in the subsequent period.

### Briefings & Miscellaneous

Karen Hamrick organized the *Third Annual Federal Forecasters Conference*, which was co-sponsored by ERS, the Bureau of Census, the Central Intelligence Agency, the Bureau of Health Professions and the National Center for Education Statistics and held September 6 in the USDA South Building. In addition to lining up the conference program, which included a keynote speaker, a senior level panel, and technical sessions, she also handled the administrative details. Karen is currently compiling a proceedings document on the conference. For information on the proceedings, or for a copy of the *Federal Forecasters Directory*, call Karen Hamrick, 202-786-1782.

## Personnel

Ralph Monaco is currently on a one year detail as a senior staff economist for the President's Council of Economic Advisers. John Kitchen has been appointed Acting Section Leader while Ralph is on the detail. He has a B.A. in economics and history from the College of William and Mary, an M.A. and Ph.D. in economics from the University of Pittsburgh, and was previously an Assistant Professor at Washington and Jefferson College.

Since joining ERS in 1984, John has been involved with research on international financial markets, commodity markets, and the interactions between the international macroeconomy and U.S. agriculture.

Jim Malley, after five productive years in ERS is leaving to take a Lectureship position in the Department of Economics, University of Stirling, Stirling, Scotland. He will continue to work with ERS on further development and application of the Small Global Model.

## FINANCE AND DEVELOPMENT POLICY BRANCH

### View from the Branch

by Pat Sullivan

This is the time of year we develop detailed plans on the research and Situation and Outlook (S&O) programs envisioned for the coming fiscal year. And while it is tempting to summarize them here, I've noticed that every time I do a "View from the Branch" on all of the great things we've got planned, it seems that a significant portion of the staff resigns before the ink is dry! Of the explanations that leap to mind, I suspect that the background and skills that go into the creation of great research plans also make the branch staff imminently marketable. But whatever the cause, given rumors of unpaid furloughs, travel restrictions, and tighter controls on USDA publications, I'm inclined to downplay the vastly broadening horizons of the branch's expertise and concentrate, instead, on a less mobile segment of the branch's resources--its database.

Over the past several months, the branch has made significant strides in building a first-rate database on rural financial institutions. For years we've had access to the Federal Reserve's public-use data on commercial banks, thanks to the continuing efforts of Dan Milkove. These data, supplemented with branch structure and bank failure data from the Federal Deposit Insurance Corporation, have supported nearly all of our research, S&O, and staff analyses on rural and agricultural bank operations over the years. Recently, George Wallace and Doug Duncan have begun the task of developing a consistent set of SAS databases which will include year-end commercial bank financial reports for the 1980-89 period, making these data more accessible to agency personnel.

Largely because of resource constraints, we haven't enjoyed the same degree of access to micro-level data on most other types of rural financial institutions until recently. As the Savings and Loan (S&L) crisis has come to the forefront, Cliff Rossi has been building a database containing year-end financial data on savings and loan associations covering the 1983-89 period. And while budgetary pressures at the Office of Thrift Supervision are complicating matters, we hope to be able to continue acquiring public-use S&L files in the future. Cliff also acquired year-end financial data on urban and rural credit unions for 1989. If these prove to be useful, we'll explore ways of broadening our coverage of these institutions as well. Not to be outdone, Bob Collender recently negotiated the release of public-use data on the Farm Credit System's institutions in machine readable form. For the first time, ERS will have bank- and association-level financial data in a form suitable for analysis for the 1984-90 period, once all the bugs are worked out. The initial purchase includes quarterly financial reports; for the future, we hope to continue supplementing this database with semi-annual updates.

While data on regulated financial institutions is routinely collected and is theoretically available for analysis, secondary data from the users of financial services is harder to come by. But here too the branch has enjoyed some recent successes. Due largely to the efforts of Don Lerman (formerly with FDP) and Jim McGlone, we now have bi-annual survey data on business use of credit from the National Federation of Independent Businesses for the 1983-87 period and expect to receive the Federal Reserve's National Survey of Small Business Finance as soon as it becomes available to the public. Don was also instrumental in acquiring all 3 iterations of the Survey of Consumer Finances, providing insights on rural consumer use of credit.

Of course, the branch's responsibilities transcend financial markets. In the government finance and tax areas we have also made some recent data purchases which

should strengthen our research capabilities. The most recent Census of Governments was recently ordered, adding to our extensive database on rural government finances which now covers the 1962-87 period. To assist with the seemingly endless stream of requests for reports on pending and proposed tax legislation, the branch has purchased the IRS's 1987 Individual Tax Model. If it proves useful, we hope to update this annually.

While we may not always have the personnel to analyze this data, or the computer funds to access it, as long as the National Computer Center at Kansas City doesn't experience a catastrophe we'll have the basis for some informative number crunching. And if I learn next week that half of our tape library was accidentally erased, I'm going to stop contributing to this column.

## Research & Analysis

Cliff Rossi recently completed a paper entitled, "Estimating Savings and Loan Output Supply and Input Demand Response" for submission to one of the economic journals. The paper provides an empirical examination of the substitution effects between thrift assets and deposits as well as their relationship to financial performance. To do this, Cliff employs a multiproduct translog profit function estimated jointly with several share equations for S&L's in New York. The model detected a significant relationship between financial performance and asset and deposit shares. Cliff also found rural S&L's to be less profitable than urban firms. A USDA technical bulletin on this topic will be available later in the year.

## Publications

"Seven Farm Input Industries," *AER-635*, includes a chapter on "Credit" by David Freshwater (Univ. of Kentucky) and Pat Sullivan. The monograph, which was published in September, is an update of a 1968 ERS report. As such, discussion concentrates on market developments during the tumultuous 1970's and 1980's. Dave and Pat discuss the role of credit in the agricultural production process and chronicle changes in the demand for and supply of agricultural credit over the past two decades. For those who believe that old news is better than no news.

The September issue of the *Office Thrift Supervision Journal* includes an article by Cliff Rossi entitled, "Rural Thrifts are Feeling the Pinch." The article provides an assessment of how rural savings and loan associations and their borrowers will fare under tighter capital requirements, new standards for mortgage lending, and higher deposit premiums resulting from recent thrift reform legislation. Cliff finds that fewer thrifts will remain after the resulting

industrywide restructuring and they are likely to be smaller, but stronger financially than before. In the long-run, these changes should result in a more stable thrift presence in rural areas.

"Financial Market Intervention as a Rural Development Strategy," will soon be available as an ERS staff report, if it isn't already. The first of 4 reports on various rural development strategies, the monograph includes 5 chapters addressing the usefulness of Federal intervention in financial markets to foster rural economic development. Pat Sullivan's "Overview" summarizes the major findings and puts the report in perspective. "The Changing Nature of the Rural Financial System," by Dan Milkove, describes the rural financial services delivery system and recent structural adjustments resulting from technological, market, and regulatory changes. "Rural Nonfarm Business Access to Debt and Equity Capital," by Ron Shaffer and Glen Pulver (Univ. of Wisconsin), summarizes the available evidence on rural business access to capital, drawing largely on their work in Wisconsin. "Financing Rural Governments," by Rick Reeder and Cliff Rossi, provides an assessment of how well financial markets and intergovernmental financial assistance programs are serving the needs of rural governments. And last but not least, "The Federal Role in Financing Rural America," by Dave Freshwater (Univ. of Kentucky), provides a historical context for Federal financial assistance programs for rural businesses and governments and describes possible changes in program directions over the next few years. In addition, the report includes an eloquent "Forward" by Dick Long (OD).

The availability of affordable financial capital has long been recognized as an important factor in economic growth and development. But as the report points out, efforts to improve the flow of financial capital to rural businesses and governments will result in additional development only if investment opportunities become economically attractive as a result. Research indicates that financial markets currently serve the bulk of rural capital needs fairly well. Nonetheless, certain types of businesses in certain types of local financial markets do experience difficulty acquiring financing, given their credit worthiness. And the "public good" nature of many local government services and facilities often justifies subsidies from higher levels of government. For these reasons, continued governmental involvement in financial markets, if carefully targeted and combined with technical assistance and other supportive strategies, can bolster economic growth in rural America.

## Upcoming Events

The branch office should be well represented at this fall's Atlantic Economic Society Conference, being held in Williamsburg, VA on October 11-14. As part of a session



Contour strip cropping in Marathon County, Wisconsin.

on Agriculture and Natural Resources, Cliff Rossi will be presenting a paper on "How Important are State and Local Highway Investments to Agricultural Productivity?" To explore this issue, an econometric model of agricultural production is specified that incorporates among the factors of production State and local road investments. While recent analyses have empirically determined that such a linkage exists, very little research has been performed on the agricultural sector.

In the same session, Pat Sullivan will be presenting "Rural Financial Markets After Deposit Insurance and Regulatory Reform." Pat will also be chairing a session on Urban and Regional Economics.

#### Personnel

Johnathan Brown, a summer intern in the branch office, returned to his studies at the University of Maryland's Eastern Shore campus on August 17.

## Agricultural Finance Section

### Research & Analysis

Jerry Stam, Steven Koenig, Susan Bentley (FRE), and Fred Gale (FRE) are working on a research project that will result in an Agricultural Economic Report on farm financial stress, farm exits, and public sector assistance to the farm sector in the 1980's. Some results of this project were reported earlier in a special article in the February issue of *Agricultural Income and Finance: Situation Outlook Report* and in a paper delivered at the Northeastern Agricultural and Resource Economics Association's annual meeting. The results presented so far have been featured in a variety of outlets: *USDA Executive Notes*, *The Agricultural Credit Letter*, *The Food and Fiber Letter*, *Agra Europe*, *Congressional Quarterly's Editorial Research Reports*, several farm magazines, and the weekly ERS activity memorandum to the Secretary and the White House. This material was also used for a briefing of Assistant Secretary Gardner and his staff.

George Wallace, Douglas Duncan, and James Mikesell are working on a research project analyzing State level credit programs designed to enhance the availability and delivery of agricultural credit. Information about State outlays for existing programs was obtained through a mail survey conducted in late 1989. In 1987 and 1988, State farm credit programs were available in 24 and 28 States respectively, resulting in credit subsidies to the agricultural sector of \$50 and \$51 million. State farm credit subsidies amounted to only about 2 percent of Federal credit program subsidies to farmers during these two years. Mechanisms for delivering credit to agriculture varied, but most fell into four categories: 1) linked-deposit programs; 2) direct loans; 3) loan guarantees; and 4) add-on programs. Linked-deposit programs grew in importance and represented 29 percent of State credit subsidies in 1988. Results of this project will appear in the special article, "State Credit Program Subsidies to Agricultural Producers," in the December issue of the *Agricultural Income and Finance: Situation and Outlook Report*.

David Bessler (Texas A&M) and Ted Covey have conducted research on a co-integration test between two cattle markets. Their results show that co-integration does exist, as expected, between the two markets. This suggests that the cash market may be informationally inefficient and that a Granger-causal relationship runs from the futures market to the cash market. The two researchers are also currently writing a paper, "Testing for Prima Facie Causality in Econometrics." The paper discusses prima facie (i.e., Granger) causality and reviews the different statistical tests which have been developed to test for its existence. Both papers will be submitted for publication in economic journals.

Merritt Hughes and Anna Nagurney of the University of Massachusetts have begun work on a cooperative research project on "Federal Agricultural Credit Programs and Financial Markets: A General Equilibrium Approach." They will be developing a general equilibrium simulation model which will provide a framework for analyzing the effect of Federal agricultural credit policies and related financial programs on financial characteristics of the national economy.

As evident in the U.S. position in GATT and in negotiations on the Federal budget, the mix and level of Federal support to farming could undergo significant changes in the coming years. Research projects are currently underway to identify the interrelationships between individual programs, and the resulting effects on farmers, lenders, and other sectors of the economy to fully assess the importance of farm program policy prescriptions. As part of this effort, the work by Hughes and Nagurney will develop a system which explicitly recognizes the complete network of financial markets of the U.S. economy, allowing mutual determination of the financial

characteristics of the farm sector, financial intermediaries, and financial investors.

## Publications

"Farm Credit Conditions and Policy" by Douglas G. Duncan appeared in The U.S. Farming Sector Entering the 1990's: Twelfth Annual Report on the Status of Family Farms, *AIB-587*. The article briefly sketches recent historical developments in farm credit markets for readers considering credit policy issues for the coming decade. The article presents an overview of agricultural sector debt and discusses individual lender-group performance. The growth of debt usage from the early 1970's to the early 1980's is documented along with the contribution of the phenomenon to changes in farm structure. Agriculturally oriented commercial banks, the cooperative Farm Credit System, life insurance companies, the Farmer's Home Administration, and "individuals and others" are the five major lender groups serving agriculture. Evaluation of each of their performances during this time period is presented. Doug summarizes by observing that both lenders and borrowers were at least temporarily chastened by events of the mid-1980's, resulting in lower debt levels and more stringent lending criteria at the decade's end. Among risks faced in the future are the potential for a resurgent overly optimistic assessment of land values and liability issues associated with environmental hazards.

The June issue of *Agricultural Outlook* (AO-164) included an article by Steve Koenig entitled "Where is FmHA Headed?" Steve points out that much of the debate about FmHA regards its mission as "the lender of last resort" for farmers and rural residents. The current discussion has focused on how well the FmHA related provisions of 1985 and 1987 legislation have worked and whether further adjustments are needed. The cornerstone of the 1985 farm bill's credit provisions was a movement away from direct FmHA lending to guaranteed loans made by other lenders. The Administration opened the 1990 farm bill debate with proposals to refine FmHA's mission. These would further restrict FmHA's direct lending to beginning and minority farmers and move away from the agency's current practice of keeping established farmers in business with credit subsidies. The article traces FmHA's roots in the Great Depression, through the rapid growth era of the 1970's and early 1980's, to the restructuring period of the 1980's as the agency moved to stem soaring loan delinquencies with a series of policies aimed at helping farmers remain in farming. The current debate is between those who fear that some farmers are being denied needed help and others who want the use of loan guarantees expanded further to make it easier for borrowers to "graduate" from the direct loan programs.

"Lending Linked to Crop Insurance" by Merritt Hughes was published in the July issue of *Agricultural Outlook* (AO-165). Recent survey results show that about 17 percent of farmer borrowers who bought Federal crop insurance in 1988-89 said they did so to obtain a loan. Borrowers were more likely to say they were required by their lender to buy Federal crop insurance if they obtained the bulk of their credit from the Farm Credit System (FCS) or the Farmers Home Administration (FmHA). Even though commercial banks and the FCS state they do not require crop insurance as a precondition for lending, about 4 percent of farmers with loans said they were required to buy Federal crop insurance by their lender. Roughly half of the farms represented by the survey had some form of debt, and 23 percent of these indebted farms participated in Federal crop insurance in 1988-89. Lenders view crop insurance as one way to reduce financial risks and help ensure loan repayment.

#### **Papers Presented & Meetings Attended**

Jerry Stam presented the paper "An Analysis of Farm Financial Stress and Farm Exits in the 1980's" at the Northeastern Agricultural and Resource Economics Association annual meeting held at Truro, Nova Scotia on June 18-20.

The section presented several papers at this year's American Agricultural Economics Association conference in Vancouver, British Columbia on August 4-8.

"Farm Credit 'Junk' Bonds?" was presented by Mike Singer (Texas A&M) and Douglas Duncan. The level and structure of risk premiums on Farm Credit System (FCS) bonds were shown to have undergone major shifts during 1985. It is suggested that default risk was the primary cause of the shift, and that liquidity risk had little impact. The constant nature of the bid/ask spread on FCS securities suggests that the shift in yields during the year was not due to liquidity concerns. The evidence does support the hypothesis that there was a shift in the level and structure of the risk premiums on FCS bonds of different maturities. The level of risk premiums for all FCS bonds increased, with the largest increase occurring for the shortest maturity. In the absence of a change in liquidity risk, it is likely the shift was due to changes in investors' perception of the default risk on FCS bonds. The variability of the spreads was also shown to depend upon the correlation between yields as well as the variability of the yields themselves. The coefficient of variation and the correlation coefficient for the yields of shorter maturity bonds also underscore the near-term uncertainty of investors, lending support to the "crisis at maturity" explanation of shifts in the risk premiums. The results highlight the importance of agency status and government backing to funding costs of the FCS.

Cliff Rossi and Steve Koenig presented the paper "Determinants of Agricultural Bank Participation in Farmer Mac: A Multinomial Logit Approach." The paper investigated which characteristics distinguish agricultural banks that chose to participate in Farmer Mac from their nonparticipating agricultural bank counterparts. Determining which banks among the agricultural bank population participate in Farmer Mac and what factors influenced their decision to participate provide a better understanding of how the new secondary market might operate. To accomplish this objective, a multinomial logit regression model was estimated with data on agricultural banks obtained from the Federal Reserve System's Report of Condition and Income for commercial banks (Call Reports).

Several implications can be drawn from this analysis of Farmer Mac banks. In the light of bank participant numbers and their relative holdings of farm loans, without significant participation by Class B stockholders (Farmer Credit System institutions) the market may see limited origination volume and might develop slowly. In fact, most agricultural banks are not scheduled to participate, begging the question, what determines participation in Farmer Mac among agricultural banks? The estimated model shows that larger agricultural banks located in the midwest, having a higher level of variable rate loans in portfolio, a higher quality loan portfolio, and specialized in agricultural lending were more likely to participate than other agricultural banks. Further, Farmer Mac securities may be more dependent upon the economic vitality of the midwest region. However, it appears that Farmer Mac banks are ready for the challenges of the new market based on their experience in agricultural lending, level of sophistication, and generally favorable financial condition.

"Estimates of the Bankruptcy Costs Under Chapter 12" was presented by Robert Collender and Theodore Feitshans (N.C. State). This research is designed to provide timely input concerning the controversial Family Farmer Bankruptcy Act of 1986, known as Chapter 12, which is set to expire on October 1, 1993. In particular, it is important for policy makers to understand the economic costs imposed by Chapter 12 bankruptcy. These economic costs, referred to as bankruptcy costs, are dead-weight losses to the economy. They include direct costs incurred after filing a bankruptcy petition as well as indirect cost incurred before filing. The size of these costs is important for two reasons. First, they are thought to play an important role in the determination of farm capital structure. Second, since these costs are dead-weight losses to the economy, public policy should seek to minimize them in the interest of economic efficiency. Results indicate that total bankruptcy costs under Chapter 12 are about 1.8 times higher than under Chapter 11 reorganization, the pre-existing alternative.

The section was also well represented at this fall's meeting of the NC-161 regional research committee, "Financing Agriculture in a Changing Environment: Macro, Market, Policy and Management Issues," in Kansas City, Missouri, on September 24-25.

**George Wallace** and **Douglas Duncan** presented "Characteristics of High Performance Agricultural Banks in the 1980's." The paper investigates characteristics unique to high-performance agricultural banks using year-end financial statements for the entire decade. Profitability, capital adequacy, efficiency, and liquidity were selected as criteria for use in ratio analysis of bank performance in the 1980's. High performance agricultural banks were compared to other agricultural banks. Further, comparison of agricultural bank performance between USDA crop reporting regions was performed in order to evaluate whether the characteristics of regional agricultural production affected bank financial health. Conclusions drawn from the analysis provide insights into possible management strategies for successful agricultural banking in the 1990's.

**Ted Covey** and **Ronald Babula** (NEH) delivered "Testing Fisher's Hypothesis for Agriculture." In the paper, dynamic response patterns were developed to allow contrasts across regions. While short-term responses of interest rates to shocks in inflationary expectations were different within regions for different loan-types and across regions for similar loan-types, long-run responses were remarkably similar. Fisher's hypothesis was shown to hold, but with less than the expected one-for-one response.

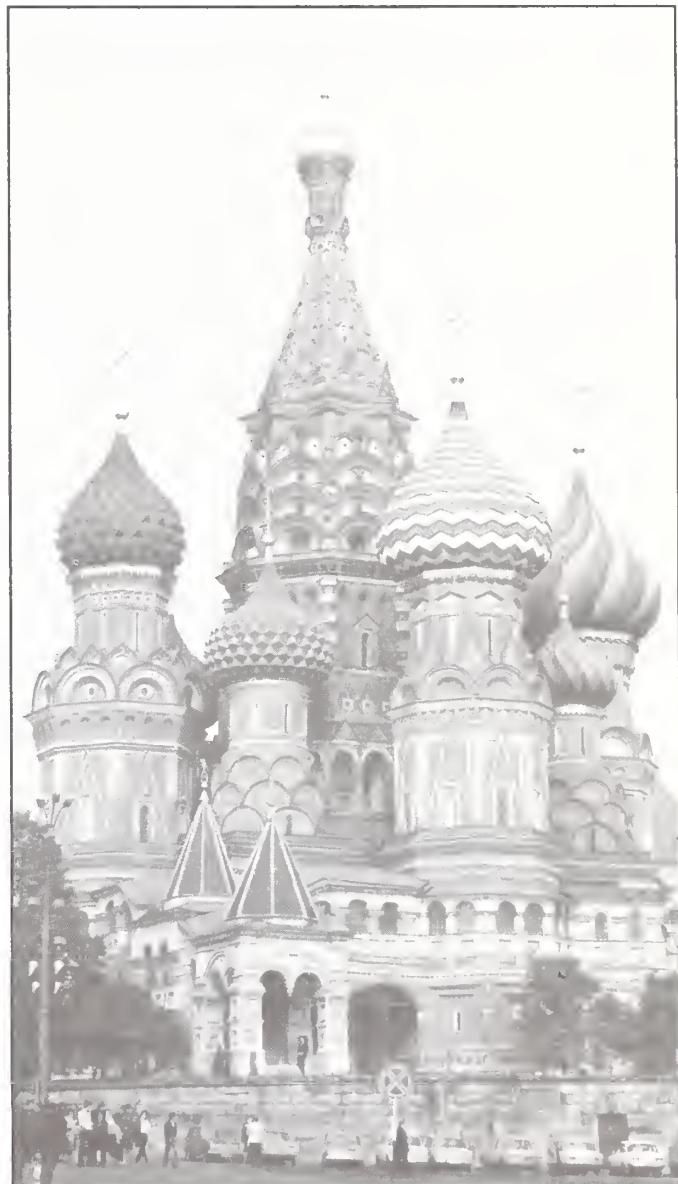
#### ***Briefings and Miscellaneous***

**Robert Collender** travelled to the Soviet Union with **Ed Cook** (ATAD), **Jim Langely** (ASCS), and **Philip Raup** (Univ. of Minnesota) as per the current Protocol for Economic Research and Information. The team's mission was to exchange expertise on financial management of Soviet agriculture. The team visited with Soviet counterparts at the Institute of World Economy and International Relations (IMEMO), the All-Union Research Institute for Agricultural Economics, the Ministry of Finance, the State Price Committee, and others. Two one-day seminars were presented, one at IMEMO and one at the Research Institute for Agricultural Economics as well as numerous informal contacts with Soviet counterparts. The team emphasized the role of financial policies and institutions through a review of the experience of those in the U.S. and developing countries.

**Robert Collender** has successfully coordinated the purchase of FCS call report data from the Farm Credit Administration. This database includes detailed financial

information on all institutions in the Farm Credit System starting in 1984 and should prove invaluable for on-going research, staff work and situation and outlook responsibilities of the branch. These include monitoring the financial recovery of the system, determining the cost structures of various system components and the extent to which system reorganizations make economic sense.

**Merritt Hughes** completed the course "Management Training for Senior Level Women" on July 8-13 at Annapolis, Maryland. The course was offered as part of a Department-wide program to eliminate underrepresentation of women in senior-level management and executive positions. The week-long seminar provided participants with opportunities to both evaluate their own strengths and learn specific management skills. The seminar included a morning session on the budget process in USDA, a panel discussion by three women in the Department's Senior



*The Soviet Union*

Executive Service, and an evening with Assistant Secretary for Administration Adis Vila. The seminar was also attended by Molly Killian of the *Human Resources and Industry Branch* (RE).

### Upcoming Events

**Ted Covey** and David Bessler (Texas A&M) will present "A Forecast Test for Prima Facie Causality Between Two Cattle Markets" at the Atlantic Economic Society's annual meeting in Williamsburg, Virginia, October 11-14.

**Merritt Hughes** will present "The Effect of Insurance on the Provision of Financial Services in Rural Areas" at the North American Regional Science Association in Boston, Massachusetts, November 9-11.

**Douglas Duncan** and Michael Singer (Texas A&M) will present "A GSE Near Miss and Agency Security Yield Spread Response" at the Southern Finance Association annual meeting to be held in Savannah, Georgia, November 29-December 1.

### Personnel

**Toshiro Settles** joined the Section as a secretary in early June.

### Government and Development Policy Section

#### Research & Analysis

**Lorin Kusmin, John Redman and Dave Sears** are continuing a study (initiated by John, Dave and Molly Killian (HRI)) on the economic and social factors associated with the growth and stability of earnings. Additional variables have been added to the database for the study--including 1987 earnings, a revised measure of stability, and data on state-level fiscal variables and several other variables which may (based on the results of an extensive literature search) influence earnings. Planned

analyses will test the influence of these variables on both growth and stability at both county and commuting zone levels. Additional analyses may test for interregional differences in the determinants of growth and stability.

**Tom Rowley** and Shirley Porterfield (HRI) are collaborating on a study of the rural development effects of telecommunications investment. Telecommunications are increasingly cited as a must for rural development. Much remains to be learned about the relationship, however, before effective policies can be designed. Tom and Shirley are currently working on a thorough review of the literature, which they will publish. Later phases of the study will identify telecommunications-intensive industries and compare employment and earnings performance for those industries with the performance of other industries in nonmetro counties.

**Anicca Jansen and Rick Reeder** are just beginning work on their next project: the identification of "government poor" counties in nonmetro America. The concept of local "government poverty" is similar to the concept of individual poverty--there is a basic minimum package necessary to function properly in society (for the individual this package contains, for example, food and shelter, while for the local government it contains, for example, police services and primary education), and in order to obtain this minimum package, a minimum level of resources must be spent. Without the expenditure of this minimum level of resources, the result is poverty, whether for the individual or the locality. Thus, "government poor" counties are those in which local governments spend relatively little on government services. Using Census of Governments data on local government expenditures, this study will focus on 1987 (the most recent year with available data) and on changes in the picture of nonmetro "government poverty" since 1962. A regression approach will be used in an attempt to adjust spending levels to reflect economies of scale and other cost-related factors.

**Tom Rowley, John Redman, and Jack Angle** (DSC) have completed a year-long study of per capita income inequality. For nearly 50 years, beginning in 1932, State per capita incomes in the U.S. converged. Since 1979,

however, State per capita incomes have abruptly diverged. This study examines the phenomenon from various angles, looking for contributing factors and possible scenarios for future levels of inequality. Three separate manuscripts from the study are nearing completion.

**Rick Reeder** is currently working on a study of rural enterprise zones (EZ's). EZ's are specially-designated local areas where businesses receive favorable tax treatment in exchange for investing and



U.S. Currency

creating jobs inside the zone's boundaries. Rick's study is mainly a review of literature on State-designated EZ's and their effectiveness in contributing to economic development in rural areas. In this study, and in related work he has performed for the Federal Policy Committee on Rural Tourism Development, Rick has focused on the actual and potential strengths and weaknesses of State EZ programs and how EZ policy might be revised to contribute more fully or efficiently to rural economic development.

**John Redman** has drafted two ERS staff reports on the Title II-A program of the Job Training Partnership Act (JTPA). This Title governs Federal job training for the economically disadvantaged. The first report looks at relative program performance in metro and nonmetro areas over the 1986-88 period. Overall, performance measures such as the percentage of trainees entering employment and the cost per trainee entering employment were generally better in nonmetro and predominantly nonmetro areas. Even in these areas, however, a significant percentage of participants failed to find employment after completing training, and many who did find employment ended up in very low-paying jobs. The second report examines the metro-nonmetro split resulting from the allocation of Federal JTPA funds to localities. During the 1980's, nonmetro areas appear to have benefitted from the program's heavy reliance on the unemployment rate to allocate funding among local jurisdictions. John reports that this nonmetro advantage in the funding formula could disappear in the future, however, as the metro-nonmetro unemployment rate difference has been narrowing recently, and Congress is considering changes in the allocation criteria which, if adopted, would work to the disadvantage of nonmetro areas.

**Anicca Jansen** analyzed rural-urban differences in per pupil sales tax capacity for the fiscal and school years ending in 1988 for the State of Tennessee. The results show that if small nonmetro counties had applied all their 1988 local sales tax revenue to education, they could have funded, on average, only 11 percent of their primary and secondary education operating budget, compared to 25 and 30 percent for metro and large nonmetro counties, respectively. Anicca also found that adjacency is a factor in local sales tax revenue per pupil. Small and medium-sized nonmetro counties adjacent to metro areas have lower sales tax revenue per pupil than non-adjacent counties of the same size. This suggests the presence of sales tax exportation.

**Maureen Shea** developed a database describing the proximity of each nonmetro county to a national park. This data set will be useful for the Section's analysis of earnings growth and stability (described above) as well as for other work. Maureen worked as a 1990 summer intern in the Section.

## Publications

"Targeting Aid to Distressed Rural Areas: Indicators of Fiscal and Community Well-Being," by **Rick Reeder**, will soon be released as an *ERS Staff Report*. The report notes that improving the targeting of aid programs has become a higher priority for policymakers in recent years as Federal and State budget deficits have grown and greater emphasis has been placed on providing aid to where it is most needed. Some commonly used aid formula factors, such as unemployment rates, tax effort, and population size, disproportionately favor urban over rural areas. More care in selection of targeting indicators would improve program efficiency and equity. Greater attention to program details--such as matching requirements, technical assistance, and the statistical properties of the targeting indicators--could also improve the ability of policymakers to tailor programs to rural conditions. Use of fiscal capacity indicators, such as per capita income, would help keep program costs down by targeting aid more precisely to those rural and urban areas that are in extremely poor financial positions.

## Papers Presented and Meetings Attended

In July, **John Redman** and **Dave Sears** attended the second working session of the Rural Development Policy Academy in Sheridan, Wyoming. The Academy, which was organized by the Council of State Policy and Planning Agencies, brought together teams of private and public sector officials from ten States to develop individual State comprehensive rural development plans. The experience was an opportunity to listen to and interact with a broad range of policy officials facing widely different sets of rural development issues.

In August, at the Annual Meetings of the Rural Sociological Society in Norfolk VA, **Dave Sears** met with the team of four university researchers who are conducting a study of rural self-development projects. This study is being sponsored jointly by ERS and four universities, Virginia Tech, Kansas State, Vermont and Georgia. It is funded through a cooperative agreement managed by Dave. Also at the meetings, Dave chaired a session on self-development as a rural development strategy. The session was well attended and well received.

**Anicca Jansen**, who in addition to being a valued full-time ERS employee is also a Presidential Management Intern (PMI), attended a Career Development Group meeting in conjunction with the PMI program in July. The focus of the discussion was a comparison of career development opportunities at the State Department and the Department of the Navy. Anicca also attended the PMI mid-program conference in Richmond, VA in June. The most inspiring sessions dealt with two management issues

likely to emerge as important in the 1990's--ethics and confronting one's own biases with respect to persons from other cultures and persons with handicaps. Included in the conference was a panel discussion and dinner with Federal executives in training at the Federal Executive Institute, Charlottesville, Va.

### **Briefings and Miscellaneous**

Tom Rowley and Norm Reid (OD) have been traveling with the National Commission on Agriculture and Rural Development Policy as they assist the Commission in a year-long study of rural development issues. (See the *Office of the Director* section of this newsletter.)

In May, members of ARED hosted the fourth in a series of mini-conferences on the "Foundations of Rural Development." This series of conferences has been organized by Norm Reid (OD), Tom Rowley, Dave Sears, Glenn Nelson (Univ. of Minnesota), and Merv Yetley (House Agricultural Committee). At the May conference, the topic was social infrastructure and its relationship to rural economic development. Researchers from academia and government attended the two-day session. Previous conferences in the series focused on entrepreneurship, education and training, and physical infrastructure. The next conference--on appropriate policy assessment methodologies--will be held in the spring of 1991. A book incorporating material from these conferences will be published at the end of the series.

Norm Reid (OD) and Dave Sears are co-editing a book and an issue of the *Policy Studies Review*; the topic of each is "Rural Development: Strategies That Work." They received over 50 proposals--many of them very strong--from a wide range of academicians and practitioners. Because of the good response to the call for proposals, Norm and Dave expect that both the book and the journal will be valuable additions to the literature on rural economic development, but overlap between the two documents will be minimal. Both publications should appear in 1991.

### **Personnel**

**Dan McCarthy** joined the *Government and Development Policy Section* in September on a part time basis. He is presently a graduate student in Urban Studies at the University of Maryland.

Previously Dan has worked at the Bureau of Labor Statistics on the Consumer and Producer Price Index Programs as well as managed several small businesses. He has a B.A. in Economics from the University of Rhode Island at Kingston.



*Daniel McCarthy*

Dan was born in Rhode Island and spent the first two thirds of his life there. This month he will celebrate being in Washington for ten years.

Dan lives in Takoma Park, MD. Outside of work and school he enjoys cooking, eating, wine and playing ice hockey.

### **Rural Finance and Tax Section**

#### **Research and Analysis**

**Jim Mikesell** and **Felice Marlor** are preparing a Statistical Bulletin, "Nonmetro, Metro and U.S. Bank-Operating Statistics, 1987, 1988, and 1989." This study follows the general format of earlier single-year reports for 1985 and 1986. Information on nonmetro, metro and U.S. bank operations is presented. Various classifications of banks are made, based on such characteristics as size, region, loan portfolio and capital problems, and concentration in agricultural lending. For the first time banks with unusually high levels of real estate loans are treated separately because of recent problems with such loans. The 1989 profit rate (net return on assets) of nonmetro banks was over twice that of metro banks. Nonmetro bank profits were up slightly from 1988 while metro bank profits had dropped 45 percent, mainly because of large loan write-offs taken by some of the Nations' largest banks.

**Jim McGlone** has completed a study of the National Federation of Independent Business' (NFIB) *Survey of Credit, Banks, and Small Business, 1987*. He found, not surprisingly, that rural and urban credit markets are different--interest rates are higher in rural markets, but collateral requirements are lower. Surprisingly, Jim's analysis indicates that rural markets are better at serving borrowers than urban markets. Complete results of the study will be published in *Rural Development Perspectives*. A follow up study using data gathered in two previous NFIB surveys is currently underway.

A cooperative research project on "The Effect of Capital Access on Rural Entrepreneurial Development" was recently entered into by the section, the HRI Branch, and Ron Shaffer and Glen Pulver of the University of Wisconsin-Madison. Over the next year, the project hopes to develop an econometric model which explains variation

in the rate of growth of start-up and early-expansion stage firms in high technology manufacturing and service-producing industries in rural Wisconsin. Of particular concern is access to capital markets, but other factors, such as proximity to transportation, institutions of higher education, and urban areas will also be considered, as will the basic economic structure of the surrounding community.

## Publications

**Don Lerman** and Robert Lerman (American Univ.) co-authored an article for the *Journal of Economic and Social Measurements*. The article, "Income Sources and Income Inequality: Measurements from Three U.S. Income Surveys," examines the contribution of individual income sources to overall income inequality. The article provides new evidence from the 1983 *Survey of Consumer Finances* (SCF) on the marginal effects of earnings of family heads, capital income, spouses' earnings, and housing income. The results of their analysis differ from earlier studies based on the 1981 *Current Population Survey* (CPS) and the 1981 *Survey of Residential Finance*. Compared to the CPS based study, capital income is more unequalizing while spouses' earnings are more equalizing based on the SCF data. However, the authors found that imputed income from housing had an equalizing impact on homeowners' income using either the SCF or the CPS.

**Ron Durst** authored a chapter in "The U.S. Farming Sector Entering the 1990's: Twelfth Annual Report on the Status of Family Farms," *AIB-587*. The chapter, "Federal Income Tax Policy," discusses the effects of tax policies on the agricultural sector throughout the 1970's and early 1980's. The chapter also discusses the Tax Reform Act of 1986 and the changing role of Federal tax policy in agriculture.

## Papers Presented and Meetings Attended

The American Agricultural Economics Association conference included these papers on Federal tax issues co-authored by members of the section.

**Ron Durst and Cliff Rossi** co-authored "Do Farmers Pay Federal Income Taxes?" The paper examines the proposition that the Federal income tax provides a net subsidy to the farm sector. The net effect on Federal income tax revenues from exempting farm income and disallowing farm losses for various sizes and types of farms is determined. The analysis finds that the Federal income tax provides a small net subsidy to farming primarily due to the large number of small noncommercial farms that report

losses for tax purposes. The analysis found that farms with farm business receipts of between \$50,000 and \$1,000,000 actually paid more Federal income taxes on farm income than was sheltered from taxation by reporting farm losses, resulting in a positive net effect on tax revenues.

Mike LeBlanc and James Hrubovcak of RTD and Ron Durst co-authored "Agricultural Resource Adjustment and Capital Gains Taxation." The paper examines the effects and implications for agriculture and forestry of the President's proposal to reduce the tax rate on capital gains. A general equilibrium approach was adopted to capture the competition for resources across sectors of the economy. Results suggest that reducing the biases in the current tax system leads to a more efficient allocation of resources throughout the economy and greater overall output and income. Overall, agriculture and forestry output increase primarily due to the extension of favorable capital gains treatment to trade or business assets.

## Briefings and Miscellaneous

Cliff Rossi and Ron Durst met with staff from the Office of Management and Budget to discuss using farm tax data to derive estimates of the costs of proposed limitations to agricultural program payments. This work also resulted in a briefing for the Deputy Assistant Secretary for Economics on this subject.

## Personnel



*Michael Compson*

**Michael Compson** joined the Rural Finance and Tax Section in early September. Mike was previously a Visiting Assistant Professor at Davidson College in North Carolina. He received his Ph.D from Clark University in Worcester, Massachusetts where his fields of specialization were Public Finance and Industrial Organization.

Mike is currently living in Alexandria and is looking forward to taking advantage of all that Washington D.C. has to offer.

**Tina Terry** joined the Finance and Development Policy Branch as secretary for the Rural Finance & Tax Section. Tina transferred from the Agriculture and Trade Analysis Division where she was secretary for the U.S. Policy Information Section.

## FARM AND RURAL ECONOMY BRANCH

### View from the Branch

by Tom Carlin

Progress on a research program has some similarities to that of putting together a jig-saw puzzle. Back home I can remember jig-saw puzzles sitting on the dining room table for months before the last piece was finally put in place. Once in a while each family member had to look at the picture on the box cover in order to remember what the finished product was supposed to look like.

The publications reported below represent pieces of a yet unfinished research agenda to develop a better way to project the future size and structure of American agriculture. Even before I became Branch Chief and, for that matter, before there was a ARED, researchers in the Farm Structure Section have been meticulously assembling pieces of the research puzzle. First came the initial joint effort with the Census Bureau to assemble a matched file of farms appearing in sequential Censuses of Agriculture. This resulted in the first National transition probability matrices for farms that was derived from actual data; the 1974-78 match file. Clark Edwards, Matt Smith, and Neal Peterson published the results of this initial work in 1985. Their *Agricultural Economics Research (JAER)* article was selected as the best article in that journal that year. This fall the Census Bureau hopes to complete the 1982-87 match file which will give us three consecutive transition matrices, a "gold mine" relative to just a few years ago. Progress on simply getting the data was slow because data was collected only every four or five years.

Reviewers were quick to point out an obvious problem, can you really assume that a transition probability matrix constructed in time period A will reflect the process of structural change in time period B or C? FRE researchers turned to the problem of developing a nonstationary probability matrix. Matt Smith, a former FRE researcher, developed and tested a simple model of a nonstationary Markov transition probability matrix represented by a set of multinomial logit functions. Matt's model, published in 1988, showed excellent promise but it was rather cumbersome to implement. Neal Peterson picked up the project after Matt left Washington for the green, green grass of Minnesota. Neal developed a procedure to estimate the whole transition probability matrix using only a single equation. The results of his work has just been published as a Technical Bulletin.

In the mean time, FRE researchers were examining the best method to estimate a control total of the number of U.S. farms. Perhaps it would be best to estimate the control total independent of the Markov analysis work. Fred Gale, who joined our staff in 1988, began to develop a model to do this task. Results of his inquiries, cited below, were published in August.

More and more of the pieces of this research puzzle are in place and the picture is looking promising. Back home we had to keep the cat off the dining room table in order to maintain progress on finishing the jig-saw puzzle. Dave Harrington was guarding the dining room table when this work got underway. I only hope I can keep the "cat" away until this work is finished.

### Branch Activities & News

The Agriculture & Community Linkages Section has begun their analysis of the 1987 Enhanced County Business Patterns data to measure the performance of farm and farm-related industries. The new data will be compared with previous information to determine changes in agribusiness employment during several time periods between 1975-87.

Progress on the project was initially hampered when Dave Hopkins, DSC, discovered errors in the CBP file, which caused the vendor to revise the data and issue new tapes. Thus far the CBP data, which are developed by the U.S. Bureau of the Census to estimate number of establishments and employment by industry, have been aggregated by State and farm production region for selected agribusinesses. These estimates are the basis for several reports on farm and farm-related industries being prepared by Alex Majchrowicz (A&CL) and others. Alex is coauthoring with William Saupe, University of Wisconsin, an initial report which measures the size of the agricultural sector in Wisconsin. A follow-up article at Wisconsin is also planned. A more comprehensive ERS report being written by Alex will look at national and regional employment trends in farm-related industries since 1975.

Fred Gale and Dave Henderson have been attempting to estimate entry and exit of farms between Census years 1978, 1982, and 1987 using published Census data. Entry is estimated based on the number of farm operators by years on the present farm. Given an estimate of entry and the change in farm numbers between two Census years, an estimate of exit may then be deduced. Results indicate that the greater decline in farm numbers between 1982 and 1987 compared with 1978-82 is due to a 25 percent lower rate of entry. Fred and Dave find that exit rates hardly changed at all between the two periods. In many areas of the Midwest and South exit rates were actually lower during 1982-87.

than during 1978-82. The results are reported in more detail in a forthcoming staff report and in another monograph in progress.

## Publications

"Characteristics of Agricultural Work Force Households, 1987," *AIB 612*, by Vic Oliveira and Jane Cox was released in August. The report indicates that almost 17 million persons lived in the 5.4 million agricultural work force households (households in which some member does farm work at some time during the year) in 1987. About two-thirds of these households depend little on farm work for employment. Those most affected by farm job loss would be the 1.5 million high dependence households in which the head is primarily employed at farm work. While most agricultural work force households are in the Eastern United States, the West has a greater proportion of households highly dependent on agriculture.

Fred Gale's article, "How Economic Conditions Changed the Number of U.S. Farms, 1960-88", was published in the *Journal of Agricultural Economics Research*, Vol. 42, No. 2. The annual net decline in the number of farms is explained by using the lagged number of farms to account for longrun trend and several variables representing economic conditions. The trend provides most of the explanatory power during 1960-74, while prices, land values, and interest rates explain deviations from the trend during 1975-88. Projections of farm numbers need to take into account both longrun trends and shorrun variability in economic conditions to produce meaningful estimates.

David Henderson has two articles forthcoming. One entitled "Retail Sales, Consumer Expenditure functions, and the Rural Retail Distribution System." will be in Vol 42. No 3. of the *Journal of Agricultural Economics Research*. A second article entitled " Increasing Rural Income May Not Always Help Small Town Retailers." will appear in the summer issue of *Rural Development Perspectives*. The articles deal with the relationship between differences in a rural areas economic base and the structure of its retail distribution system.

Neal Peterson's *Technical Bulletin No. 1781*, "A Single Equation Approach to Estimating Nonstationary Markov Matrices: The Case of U.S. Agriculture, 1974-78," was released in August. Neal developed an original method,



A rebuilt and refurbished small farm tractor.

using Markov analysis and regression analysis, for analyzing the effect of different economic/demographic variables on the rates with which farms change from one sales class to another over time. The method improves on existing regression techniques used to develop Markov models with nonstationary transition probabilities. The analysis reveals that demographic variables were much more important than economic variables in explaining structural change during the 1974-78 period. The methods developed here should apply to many situations besides the changing sales class distribution in agriculture.

## Papers Presented and Meetings Attended

Susan Bentley was a keynote speaker at the University of Idaho's Home Economics Cooperative Extension Training Conference, in Boise, in April. In her presentation, "Adjustment Strategies of Farm Families in the Mid-1980's," Susan described the longitudinal research being conducted under ERS cooperative agreements. Susan presented "Farm Adjustments to Financial Stress: Results from a Longitudinal Analysis" (coauthored with William Saupe, University of Wisconsin) at the Northeastern Agricultural and Resource Economics Association's Annual Meetings in Truro, Nova Scotia, June 18-20.

Susan also attended the VIth Congress of the European Association of Agricultural Economists in The Netherlands in early September, where she presented the paper "Adaptation of Family Farms to Economic Shocks in the Midwest of the USA: A Longitudinal Farm Household Survey" (coauthored with William Saupe, U.W.).

**Fred Gale** attended the 1990 Annual Meeting of the American Agricultural Economics Association, (AAEA) where he presented the paper, "The Impact of Nonfarm Labor Markets on Off-Farm Income". Fred used a regression model to examine the effects of nonfarm wage rates and unemployment rates on off-farm income per farm in 10 U.S. regions. Off-farm income is positively associated with wages and negatively associated with unemployment rates. The effects are generally weakest in sparsely populated western regions. The large wage elasticities suggest that U.S. farmers have considerable flexibility in adjusting labor use between farm and nonfarm employment.

**David Henderson** presented a paper entitled "Community Retail Impacts of Farm Policy." at the AAEA meetings in Vancouver, B.C. The paper developed a model which estimated an elasticity of retail sales with respect to different sources of cash farm income by community size and type of retail business. Results indicated changes in farm income, influence the location of retail businesses in agriculturally dependent areas. The analysis indicated the farm expenditure flows tend to shift rural business revenues upward through the community hierarchy away from small communities toward larger communities. The farm expenditure transfers help explain the dynamics of rural retail distribution systems as a function of changes in the sources of farm income.

**Fred Gale Jr. and David Henderson** presented a poster entitled "Regional Differences in Growth, Exit and Entry of Farms." The poster used data from the Agricultural Census longitudinal file and summarized the data for the 1978 to 1982 period. Neal Peterson aided in the graphic design and organization of the poster.

## Personnel

**Dennis Brown** joined the section as an agricultural economist in July 1990. He will be involved in constructing

a regional econometric model in order to analyze the connections between the performance of the agricultural sector and regional economic development. As a Ph.D. candidate in economic and urban geography, at the University of Maryland, he is also working on his dissertation, which deals with the influence of the local geographic environment in

determining the outcome of labor union certification elections.



*Dennis Brown*

Dennis received his M.A. in regional science from the University of Pennsylvania and a B.A. in urban geography from the University of Windsor (in Ontario). Prior to coming to ERS, Dennis worked as an economist at the U.S. Department of Labor. While at Labor, he assisted in the implementation of a national farmworker survey.

Originally from Boston, Dennis lived half of his life in Ontario and he feels that this eclectic background has instilled in him a keen sense of exploration. To date, he has visited 50 countries in 5 continents and, ultimately, hopes to visit them all.

While not working, researching, and travelling, Dennis enjoys playing with his 13-pound cat, Paka. Dennis and Paka currently reside in Greenbelt.

**Robert Coltrane** retired in August after 33 years of Federal service. Robert has participated in a variety of research studies during his ERS career. While stationed in Morgantown, West Virginia in the 1960's, Robert conducted a number of studies for the newly formed Appalachian Regional Commission. He transferred to Washington in 1968 to lead the Regional Studies Section in the Economic Development

Division (EDD). In 1975, Bob became leader to the Manpower Studies Section, the predecessor of two current ARED sections, Agricultural Labor in FRE and Rural Employment in HRI. Robert is a recognized National expert on agricultural labor. He has published extensively on agricultural labor policy and has served as a advisor to several Assistant Secretaries for Economics on agricultural labor issues. Robert was the recipient of ERS's Excellence Award and USDA's Distinguished Service Award in recognition of his contributions in the field of Agricultural Labor.

Robert and his wife, Francis, have retired to Stuarts Draft, Virginia, a small town nestled in the heart of the Shenandoah Valley. We thank Robert for his contributions to ERS's research program and wish them well in their retirement.

**Donald "Don" K. Larson** retired in July after 33 years of Federal service. Don joined the Census Bureau in 1957 where he worked on the 1959 Census of Agriculture. After transferring to ERS in the early 1960's, Don worked on a variety of research issues. He conducted a number of actuarial studies for Federal crop insurance programs in the

1960's. During the 1970's, Don published several studies on the level, sources, and personal distribution of farm family income and on the socio-economic conditions of the nonmetro elderly. During the 1980's, Don was a charter member of a team of ARED researchers who developed and conducted a series of studies on the distributional effects of rural employment growth. Don was team leader of the first study conducted in a 9 county area in south central Kentucky. He was principle author on a series of reports on the effects of employment growth on household income and poverty status.

Don and his wife, Lynn, have returned to Gooding, Idaho, Lynn's home town. We thank Don for his contributions to ERS's research program and wish them well in their retirement.

**Clemens Schwerdtfeger**, a geographer from Germany, joins the branch from August until October. While working on his PHD. thesis about EEC regional policy, he took a



*Clemens Schwerdtfeger*

he spent three months working at the agricultural commission of the EEC in Brussels.

Clemens was born near Goettingen, which is in the northern part of Germany, and grew up there on his parents dairy farm. Now he is working on his thesis under Prof. Windhorst at the Institute of Structural Research and Planning in Highly Intensive Agriculture Regions, University of Osnabrueck. While staying in the States he lives in Vienna, Va. and enjoys his weekends driving around in the landscape of Virginia and Maryland.

**Fred Gale** of the Farm Structure Section will be taking leave for one year to teach in the People's Republic of China. Fred will teach courses in Microeconomics, Macroeconomics, and Finance for undergraduate students and teach a seminar for graduate students at Shandong University in Jinan, the capital of Shandong province, which is about 200 miles south of Beijing. Fred is taking his wife and two small children, so it promises to be quite an adventure.

## HUMAN RESOURCES AND INDUSTRY BRANCH

### View from the Branch

by David McGranahan

Last fall, the staff of the Business and Industry Section were transferred into our Branch, where they joined with people working on rural labor markets to create a Rural Employment Section. While this consolidated work on the rural economy, and eliminated some overlapping responsibilities, it created a bit of a monster. The RES had 14 positions, too big for a Section leader to manage and maintain a viable personal research program at the same time. It also proved a liability in attracting candidates with strong research interests for the vacancy.

While it would have been possible to reduce the section size by reassigning some of its positions to other sections, I am pleased to report we have permission to create two sections again, and thus maintain our staff strength in the areas most directly related to rural economic development. The Rural Labor (RLS) and Rural Industry (RIS) Sections will have distinct but not completely discrete areas of work. The RLS will focus on labor supply and the RIS on demand, but since labor market outcomes such as unemployment or earnings are the product of both supply and demand, some program overlap is probably inevitable and perhaps even useful.

The RIS research program will focus on the ways in which the internationalization of markets, changes in industrial technology and organization, and other exigencies such as information infrastructure affect rural industrial location, structure, and growth. A key issue for the Section is whether and the means by which rural areas with weak economic bases can develop new industrial niches which provide at least moderate, reasonably stable earnings. Molly Killian, Shirley Porterfield, and Martha Frederick will explore the importance of differences in physical, informational, social, and other infrastructure in accounting for differences in industrial employment change across rural areas. Jim Miller will continue to assess the impact of changes in industrial organization on rural area job growth. With the addition of new staff, we hope to begin work on models of rural/urban growth that take into account the competitive advantages of rural and urban areas as well as their industrial bases. The Section monitoring work on rural conditions and trends will focus on sectoral economic growth by geographic area.

The Rural Labor Section will analyze and report on the rural labor market situation, providing intelligence on development strategies relating to rural labor. The motivation is to identify ways to increase the adaptability of rural workers to local and national economic change. Leslie Whitener will work on the family as the unit of supply; Ruy Teixeira on the match between skills required by industry and the skills present in the labor force; Paul Swaim and Robert Gibbs (pending arrival in early November) on job displacement, occupational change, and geographic mobility; and Alan Bird, Tim Parker, and Leslie on the well-being of rural workers. The Section's work on rural conditions and trends will focus on unemployment and employment growth for areas and demographic groups.

Personnel will be advertising the two Section Head positions shortly. And then, hopefully, I will be able to catch up on my reading and get back to some research. In the future, it should be more a View from the Branch, and less one from the Underbrush.

### Personnel

Jackie Salsgiver joined the Branch Chief's Office as a junior economist this past July. She will work with Calvin

Beale on rural population issues and with David McGranahan on rural employment.



Jackie Salsgiver

to finish her MA requirements through part-time coursework. A native of Western Pennsylvania, Jackie currently lives in North Bethesda.

Amy Teran, a student in the Graduate Program in Community and Regional Planning in the School of Architecture, University of Texas, has returned to Austin after spending the summer here as an intern. She divided her time here between work with Sara Mazie (OD) on RDP and organizing data for research on the importance of colleges, universities, and other post-high school educational institutions for local economic change. Amy plans to develop this research into her MA thesis.

### Income and Well-Being Section

#### Publications

Deborah Tootle and Leann Tigges at the University of Georgia, coauthored "Labor Supply, Labor Demand and Men's Underemployment in Rural and Urban Labor Markets", which is scheduled for publication in the Fall 1990 issue of *Rural Sociology*. This paper focuses on how local labor market structure differentially affects white men's underemployment in urban and rural areas. The authors examine the effects of labor supply and demand (including measures of public employment and two previously neglected aspects of competition -- global industrial competition and sexual labor market competition) on unemployment, low-wage employment, and low-hours employment. Female labor force share in rural labor market areas provides men benefits in the form of lower unemployment, but it also costs them in the form of increased low-wage employment. The opposite arrangement of costs and benefits comes with periphery service industries. Findings also suggest that industrial restructuring, in the forms of increased foreign competition and loss of core transformative jobs, is especially threatening to rural men's employment adequacy.

The authors are currently collaborating in a related study on the effects of minority concentration and residence on underemployment.

#### Papers Presented & Meetings Attended

Elizabeth Dagata presented a paper entitled "Factors Effecting Work and Poverty in Metro and Nonmetro Areas" at the 1990 Joint Meetings of the American Statistical Association held in Anaheim, CA. She was also a participant in the "Income, Poverty and Low Wages" session of the Social Statistics Section. Several of the session's papers looked at different ways of measuring poverty and income among workers and nonworkers while one paper focused on trends in Census Designated Poverty Areas.

Elizabeth's paper examined the effects of nonmetro residence (a proxy for job opportunities) and individual characteristics on workers' chances of poverty. She found that nonmetro workers, regardless of their individual characteristics, faced a greater likelihood of poverty than metro workers. However, she reported that workers' characteristics were important predictors of which workers were most likely to be poor. The characteristics that had the strongest influence on workers' poverty chances in metro and nonmetro areas were working less than six months annually and having relatively large families that contained young children.

**Deborah Tootle** presented the paper "Welfare Reform and Local Rural Economies" at the annual meetings of the Rural Sociological Society in Norfolk, VA on August 9, 1990. This paper assesses the practicality of the education, training and work program (JOBS) mandated by the Family Support Act of 1988, for rural areas. Because of the demographic, social and economic differences between urban and rural places, and the relative dependence of some rural economies upon government programs, the potential for successful implementation and operation of JOBS in rural areas is addressed.

Data analyses suggest that although JOBS may be more difficult to administer in rural than urban areas, rural economies may have a greater capacity than urban economies to absorb JOBS participants. Paradoxically, the vast majority of jobs accessible to welfare participants in rural areas provide low-wages. Low-wage jobs may not alleviate economic disadvantages experienced in rural areas. Furthermore, whether or not education and job training will enable workers to secure better employment depends on the availability of employment within the local labor market area.

In addition, **Deborah Tootle** chaired a panel session on Rural Underemployment at the Rural Sociological Society (RSS) meetings. Panel members Janet Bokemeier (Michigan State University), Daniel Lichter (Pennsylvania State University), Susan Palmer (Rutgers), Kathy Shiflett (University of Kentucky), Leann Tigges (University of Georgia) and Leslie Whitener (RE) discussed conceptual and methodological issues associated with the study of rural underemployment.

**Bob Hoppe** chaired a panel session at the RSS Annual Meeting. The topic of the panel was "The Family Support Act: Will It Work in Rural Areas?" Other participants in the panel were Leon Ginsberg (University of South Carolina), Leif Jensen (Pennsylvania State University), **Deborah Tootle**, and Leslie Whitener (RE). Each participant is an author of a chapter in the ERS monograph on the Family Support Act. The act is a major welfare reform decree that arose from concern over the large number of children living in poverty.

Panel participants concluded that the act has some features that would be helpful to rural areas. However, the characteristics of some rural areas will make success difficult. For example, the education and job training mandated by the act may have little effect on welfare recipients in areas with severe unemployment.

**Linda Ghelfi** presented a poster entitled "Returns to Education in Rural Areas: Evidence of Weak Demand for Highly Educated Workers" at the AAEA meeting, in Vancouver, Canada. The poster outlined the research David McGranahan (HRI) and Linda have done on the

relationship between the national education crisis and rural economic stagnation during the 1980's. (See *Human Resources and Industry Branch, View from the Branch*, in the last issue of *ARED News* [Spring/Summer 1990] for a summary of their findings.)

### **Briefings & Miscellaneous**

In mid-July, **Bob Hoppe** visited the Mississippi Delta in Arkansas, Louisiana, Mississippi, and Tennessee. The purpose of the trip was to learn about poverty, welfare, and economic conditions in the Delta. Knowledge gained on the trip will serve as background information for the ERS monograph being written about the Family Support Act of 1988. The findings were presented at a HRI seminar in September.

The trip would not have been possible without the efforts of the Lower Mississippi Delta Development Commission. The Commission gave Bob access to people who normally might not have visited with him. Bob talked to a broad range of people, including state and local welfare officials, personnel from manufacturing companies, members of a local men's group, educators, and a public health service doctor.

Some problems were pointed out by several people, which probably indicates consensus that these issues are important. Among these problems were: drug use among the poor, fragmentation of the welfare system, multigenerational poverty, lack of medical insurance for the working poor, heavy caseload for welfare workers, a lack of transportation for welfare recipients, and a shortage of jobs. Note, however, that this list is based on people's perceptions of problems, rather than hard statistical evidence. Some of these problems will be addressed in the forthcoming ERS monograph on the Family Support Act of 1988.

At the August 16 OPEDA meeting, **Linda Ghelfi** served on a panel of ERS staff who reported on their impression of the AAEA meetings. Linda found the poster session to be well organized and well attended. Although community development is a relative small specialty within the Association, her education poster was the subject of lively discussion with several U.S. and Canadian agricultural economists.

The ERS monograph on the Family Support Act of 1988 is now being read by a review panel. The review panel consists of Calvin Beale (POP), David L. Brown (Cornell University), **Robert A. Hoppe**, Sarah M. Mazie (OD), David A. McGranahan (HRI), and Peggy J. Ross (IWB). Panel members are examining the chapters to see how they read as a package.

## Rural Employment Section

### Publications

Paul Swaim continues to focus on the worker displacement resulting from economic restructuring. The article "Rural Displaced Fare Poorly," which appears in the June-September issue of *Rural Development Perspectives*, shows that rural workers faced a higher rate of displacement in the mid-1980s and suffered larger economic losses than urban workers.

The finding that worker displacement is an important source of economic insecurity for workers, suggests policies to improve the labor market flexibility of rural workers. One component of current labor market policy is the obligation for some employers to provide affected workers with advance notice of impending layoffs. In "Advance Notice and Job Search: The Value of an Early Start," *Journal of Human Resources*, Spring 1990, Michael Podgursky (University of Massachusetts) and Paul Swaim show that workers receiving advance notice find new jobs more quickly, hence spend less time unemployed.

In the July issue of *Agricultural Outlook*, Leslie Whitener reports recent data on employment and unemployment conditions in rural areas. During 1988 and the early part of 1989, the employment situation in nonmetro areas looked bright as employment growth equalled or surpassed that of metro areas. However, in the last part of 1989, nonmetro employment growth began to slow. Nonmetro employment grew by only 1.6 percent between first quarters of 1989 and 1990--less than half the growth rate seen in the previous year. This more moderate growth reflects recent declines in manufacturing jobs and a slowdown in the national economy that began in the last part of 1989. At the same time, nonmetro unemployment rates began to stabilize in the first part of 1990, after years of continuous decline. This pattern may mean that nonmetro unemployment rates are leveling off as rural areas finally complete their recovery from the 1980-82 recessions or it may reflect the recent slowdown in the national economy. There is uncertainty about the direction the economy will take in the near future, but many of the Nation's leading economic indicators have worsened in recent months. Past trends have shown that during economic downturns, the nonmetro economy deteriorates further and recovers more slowly than the metro economy. Should national economic conditions falter in the near future, nonmetro areas could face more serious economic and employment problems.

In the article, "The Rural Heartland in the '90s: A New Way of Life or Llagging Earnings?", *Choices* (Second Quarter 1990), Alan Bird pointed out that the heartland, comprising the rural areas of the Great Plains states of

North and South Dakota, Nebraska, and Kansas, along with the Western Corn Belt states of Minnesota, Iowa, and Missouri, has had a mixed economic performance and will likely continue to do so unless its residents accelerate present trends toward changing life-styles. The region leads in food production and receipts from farm programs at the same time as heartland workers have an above average work commitment. But the region also has a higher proportion of low earners than nonmetro America as a whole at the same time as prospects for more and better local nonfarm jobs are poor. Indeed, the number of local nonfarm jobs is likely to diminish. Increasing farm earnings will continue to be a challenge that involves further farm enlargement and the parallel displacement of more farm families. Thus, closing the earnings gap is likely to require the creation of virtually a new way of life in which even farm families, along with their nonfarm neighbors, will relocate nearer to metro jobs, education, and other amenities.

"The Rural Community College's Role: Little Harvards and More" was the title of the lead article that Alan Bird contributed to the May 22 issue of *The Times*, a newspaper published by the American Association of Technical, Community and Junior Colleges. Bird suggested that the small or rural community college must function as the "Harvard of Washington County." Rural people have less education and lower earnings than any other U.S. residents, yet must increasingly compete with other citizens for better jobs.

Alan Bird's *RDRR-79*, "Status of the Nonmetro Labor Force, 1987," has just been published. This report points out that, although nonmetro workers had higher unemployment rates than metro workers, their main disadvantage was their much higher incidence of low earnings. Coupled with this disadvantage, nonmetro workers were more likely to be employed on an involuntary part-time basis or to be discouraged from seeking a job at all, were less likely to hold managerial and professional jobs, and were less likely to have health insurance. Thirteen percent of nonmetro workers had earnings below the individual poverty line, compared with 7 percent of metro workers and two of five nonmetro workers had an earnings rate equivalent to less than \$11,611 a year had they worked 40 hours a week for 50 weeks. They would, therefore, have been unable to support a family of four above the official poverty threshold level on their earnings alone. Most of these low earners were "career workers," age 25-64 years. The nonmetro workforce disadvantage was pervasive. It applied to both men and women, whites, blacks, Hispanics, and to all age groups. Young nonmetro workers were conspicuously disadvantaged, with lower levels of educational attainment and less job experience than their metro counterparts, portending a chronic problem.

**Jim Miller** completed chapter for a new book titled, *Economic Adaptation: Alternatives for Rural America*. The chapter is titled "Small-firm Development as a Growth Strategy for Nonmetro America." The book's editor is David Barkley of Clemson University. Jim is also currently working on a chapter for another new book titled, *Rural Community Development in the Midwest*. Bruce Phillips, Small Business Administration will be the co-author. The chapter is tentatively titled "Trends in Business Activities." The book's editor is Norman Walzer of the Illinois Institute for Rural Affairs at Western Illinois University.

### **Papers Presented & Meetings Attended**

**Paul Swaim** presented, "Worker Displacement in Rural Labor Markets," at the meetings of the Rural Sociological Society.

Regression analysis indicates that both human capital deficiencies and adverse labor market conditions contribute to the greater adjustment difficulties experienced by nonmetro workers following permanent layoffs.

**Leslie Whitener** presented two papers at the RSS meetings in Norfolk, Virginia. The first paper, "The JOBS Program: Implications for Rural Areas," examined the operation and potential effectiveness of the newly created Job Opportunities and Basic Skills Training Program in rural areas. JOBS is an employment and training program for AFDC recipients authorized under the Family Support Act of 1988. Whitener reported that the effectiveness of JOBS in rural areas will depend on several factors, including the way in which States develop and operate their programs, the health of the local economy, the

characteristics of the population to be served, and the ability of the local community to provide supportive services. Highlights of this study were discussed in the last issue of *ARED News*.

The second paper, "Labor Utilization and Underemployment in Rural Families: Future Research Directions," argues for the development of a new conceptual framework to measure labor utilization at the family level. Most studies of underemployment and labor use have focused on the individual, yet decisions as to which family members work at how many jobs for how many hours are made at the family level. Whitener discussed her initial efforts to develop a labor utilization typology which incorporates measures of employment, unemployment, underemployment, and multiple job-holding for rural families. Whitener and Janet Bokemeier of Michigan State University will continue to work on this topic under a cooperative research agreement.

**Shirley Porterfield** attended the American Agricultural Economics Association's annual meetings in Vancouver, Canada, August 4-8 and participated in an organized symposium on, "The Potential Role of the Service Sector in Rural Economies." Shirley's presentation focused on the changing rural industrial structure and the location of producer services.

Producer services appear to be an attractive alternative to manufacturing in both rural and urban areas. These firms sell their services in both local and export markets, providing relatively high-paying basic employment. Employment in producer services is growing rapidly in a few rural counties, but it is not clear whether the potential for growth exists in other rural counties. Unfortunately, the experience of the past decade indicates that most producer services growth in rural areas is taking place in those areas which serve as regional centers for an even more rural hinterland. Thus, growth in producer services employment is likely to benefit only a select group of rural counties.

**Molly Killian** participated in a Management Seminar for Senior Level Women that was held in Annapolis, Maryland, July 8-13 (See *Agricultural Finance Section*). Molly also chaired a session on local labor market performance at the Rural Sociological Society meetings in Norfolk, VA.

**Ruy Teixeira** has completed a lengthy report entitled,



Harvesting corn, tomatoes and string beans

"The Myth of the Coming Labor Shortage: Jobs, Skills and Incomes of America's Workforce 2000," in collaboration with Lawrence Mishel of the Economic Policy Institute. The paper presents its analysis in the context of a sustained critique of the conventional wisdom on job structure evolution (as exemplified by the well-publicized *Workforce 2000* report). Key findings include the following: (1) far from an explosive growth of job skill requirements, the effect of occupational upgrading on job skills is actually projected to slow down in the future to one-third to one-fourth of its rate in the recent past; (2) skill and pay gaps between expanding and shrinking occupations are projected to narrow in the future, rather than widen; (3) Upskilling within occupations due to technological change does not appear to be widespread and, at this point, may be more potential than actual within the U.S. job structure; (4) slow labor force growth has been associated with increases in the unemployment rate in other countries, so an aggregate labor shortage due to slow labor force growth seems implausible; (5) non-Hispanic whites, not minorities, will dominate entrance to the labor market in the 1990s, comprising two-thirds of total entrants; (6) projected future changes in the job structure should increase skill requirements at the same time as they decrease compensation levels; and (7) the income problems of the 1980s, including slow overall income growth, declining compensation for a majority of the workforce and increases in hours worked per adult, are quite likely to be reproduced in the 1990s. The report will be issued shortly by the Economic Policy Institute.

This paper has been presented recently at the Bureau of Labor Statistics, at the American Sociological Association annual meetings and at an international conference on "The Quality of Work: Current Trends and Future Possibilities" in Trento, Italy, in July. Early findings of a related project were presented at the Rural Sociological Society meetings.

#### **Briefings & Miscellaneous**

Paul Swaim and Michael Podgursky (University of Massachusetts) are continuing their research on the causes and cost of displacement in nonmetro labor markets. In June, a cooperative agreement was initiated to support this research. A major priority is to better understand the roles of permanent displacement and voluntary labor market mobility as responses to shifts in labor demand.

#### **Population Section**

##### **Publications**

"Rural-Urban Continuum Codes for Metro and Nonmetro Counties", *Staff Report No. 9028*, April 1990, by Margaret A. Butler.

This report provides a one-digit code for each of 10 classifications for all U.S. counties. The classifications describe a county by degree of urbanization and nearness to a metro area. These codes allow researchers to break county data into finer residential groups than the standard metro-nonmetro classification of the Bureau of the Census.

"The Farm Entrepreneurial Population, 1988", *RDRR-78*, July 1990, by Margaret A. Butler. Margaret found that about 5.3 million people lived in households tied to a farm business in 1988, compared with almost 5.0 million in the farm population as conventionally defined by place of residence. The farm entrepreneurial population, those people with an economic tie to farming, includes people who depend on farming for all or part of their income but who do not necessarily live on a farm. This report analyzes census data on income, education, and other characteristics of the group identified by farm occupation and farm self-employment income criteria.

#### **Papers Presented & Meetings Attended**

Felicia LeClere, Carolyn Rogers, John Cromartie, and Laarni Dacquel attended the American Sociological Association meetings, August 13-15, in Washington, D.C. Several sessions of interest were related to topics on children, child care, family dynamics, and migration. John and Felicia, as well as other members of ARED, attended a special session entitled "The Uses of Sociology in Government: The Case of the U.S. Department of Agriculture's Division of Farm Population and Rural Life." Among the speakers was Conrad Taeuber, a name familiar to all demographers, who was a member of the Division. Calvin Beale, our Senior Demographer, was a member of that Division for the first three months of his employment with USDA. According to the panel, the Division was the first group of professional sociologists employed by the Federal Government. The current Population Section is one of the descendants of that Division.

Paul Frenzen attended the Seminar on the Quality of Federal Data in Washington, D.C. in May. Some of the topics covered included techniques for assessing survey data quality and the status of current Federal longitudinal surveys. He also attended several sessions of the Sixth Meeting of the National Advisory Committee on Rural Health in Washington, D.C. on June 3-6 dealing with health insurance in rural areas, the financial status of rural hospitals, and access to health care for rural minorities.

Paul Frenzen, Felicia LeClere, and Carolyn Rogers participated in the National Center for Health Statistics (NCHS) Data Users Conference in Rockville, MD, in August. Those sessions most relevant to Carolyn's research include: (1) "An Aging America: Data Sources for

Key Health Issues"; (2) "NCHS Longitudinal Followup Studies", including the Longitudinal Study of Aging (LSOA). Carolyn is currently working with the LSOA public use tape to study the health status and utilization of health care services among the noninstitutionalized elderly in nonmetro areas; (3) "A User's View: Experiences with NCHS Tapes on Aging"; and (4) "Special Health Topics of the 1988 National Health Interview Survey", including the 1988 Child Health Supplement (CHS). Carolyn has worked with data from the CHS to examine metro-nonmetro differences in the child care arrangements of working mothers. Felicia and Paul discovered that The National Survey of Family Growth (Cycle IV-1988) contains geographic information that will allow them to analyze metro/nonmetro differences in the timing of family formation and prenatal care and pregnancy outcomes. They are in the process of attempting to acquire the data tape.

Carolyn Rogers continues to participate in the meetings of the Interagency Forum on Aging-Related Statistics at the National Institutes of Health in Bethesda Maryland. The upcoming September meeting is of special interest because plans call for the formation of a working group on rural data on the older population.

#### **Briefings & Miscellaneous**

On May 21, Paul Frenzen, Felicia LeClere, and Carolyn Rogers represented the section at the ERS sponsored seminar, "The Public Choice/Transactions Costs (PC/TC) Approach and the Social Science Agricultural Agenda Project".

Margaret Butler participated in the Department's review of information resources management in ERS in July. The review team was composed of Jim Horsefield, Data Manager for ERS, and four staff members from the Office of Information Resources Management. The interview included a series of questions about the duties and responsibilities of Margaret's position, her day-to-day activities and the relationship of information resources and technologies to her job.

Carolyn Rogers is serving on the Interagency Working Group on the 1990 Census Subject Report on the Older Population. She has reviewed a draft of topics and tables to be included in the subject report on the elderly population. The working group intends to finalize their recommendations by October 1990.

Carolyn is also serving on the Local Arrangements Committee for the Population Association of America. The annual meeting will be held in Washington, D.C. in March of 1991. The committee held its first meeting in June and members have begun coordinating work

assignments.

**Felicia LeClere** completed her 5-session workshop on log-linear analysis for members of the Branch in June. Although limited in scope, the workshops were meant to provide attendees with an applied introduction to a categorical data analysis technique used widely in sociological research.

An update of an on-going data series "Population Estimates and Projections for Per Capita Series", was released in April, by Carolyn C. Rogers.

#### **Upcoming Events**

"Local Marriage Market Conditions and the Marital Behavior of Black and White Women," *American Journal of Sociology*, forthcoming 1991, Daniel T. Lichter (Penn State U.), Felicia B. LeClere, and Diane McLaughlin (P.S.U.) The authors found that previous research has typically ignored the spatial dimension of marriage markets, focusing instead on highly-aggregated data or on individual models of entry into marriage. A basic premise of the study is that national marriage rates are played out across local marriage-market areas that define female opportunities for marriage. Using local-area data from the newly-released 1980 Public Use Microdata Sample (D file) provided a direct test of several alternative explanations of U.S. marital behavior and of black and white differences in marriage rates. Their analysis reveals that (a) local economic opportunities (including welfare) for females, spouse availability, and urbanization contribute significantly to spatial variations in female marriage rates; (b) the local supply of economically "attractive" males plays an especially large role in the marital behaviors of U.S. black and white women; and (c) racial differences in marriage market conditions accentuate, but do not explain completely black-white differences in U.S. marriage rates. The study reinforces the view that local marriage-market conditions play a fundamental and often unappreciated role in the marriage patterns of American women. Changing marriage patterns, including the increasing number of single parent households, are proving to have broad social and economic ramifications.

Carolyn Rogers and Suzanne Bianchi (Bureau of the Census) are preparing a chapter for a forthcoming textbook. The chapter is tentatively titled, "The Sociology of Children and Youth" and will serve to introduce a three-volume textbook, *Principles and Practices of Student Health*, coordinated by the College of Health and Human Services, San Diego State University. This project is an extension of current research that Carolyn has been conducting on children and child care issues.

## Personnel

John Cromartie joined the Population Studies Section in July, after five years as a Research Associate at the Carolina Population Center, University of North Carolina at Chapel Hill. As part of his graduate work in Geography (he received a Ph.D. in 1989), John studied interregional migration patterns of black Americans, measuring the relative importance of economic conditions versus family and kinship ties in influencing where people choose to live. John is currently studying the effects of migration on the human resource base of rural areas, covering the years 1985-90. For a second project he is using longitudinal data to analyze patterns of rural-urban cyclical migration among black and white youth.

John and his wife Agnes, small-town southerners by birth and temperament, are slowly adjusting to metropolitan life and have chosen to live in Vienna, Virginia. Agnes is augmenting her career as an early childhood education specialist by staying at home to raise their two children, William and Emma.

Laarni Dacquel, an undergraduate sociology major studying demography at the University of Maryland, joined the staff of the Population Section in June as a summer intern. She is a graduate of Northwest High School in Hyattsville, Maryland, and plans to graduate from the University in December of this year. Laarni has assisted members of the Population Section staff in a variety of tasks that have prompted her to learn almost all available computer software. She lives with her parents and siblings (including a twin sister) in Hyattsville.

## View from the Branch

by James Johnson

The Farm Sector Financial Analysis Staff has devoted considerable time this summer to tasks associated with completing the annual estimates of farm income, the farm



John Cromartie

balance sheet, the enterprise cost of production estimates, and to preparing the August issue of the *Agricultural Income and Finance Situation and Outlook Report*. Preparation of the publishable economic indicators data involves a high data management effort. The income and balance sheet statistics are developed for the U.S. and each State. Thus, estimates of what farm businesses earned from the sales of all crop and livestock commodities as well as other sources of farm earnings, such as Government payments and the use of farm holdings for recreational purposes, must be estimated by earnings component for each State. Expenses also have to be estimated by type of expense for each State. In addition, the income and expense items have to be estimated such that they can be disaggregated to different types and sizes of farm businesses.

In developing the State-level estimates of income, FSFA staff interact with personnel from the National Agricultural Statistics Service (NASS) located in each State. NASS not only provides much of the raw data used in preparing the income estimates and conducts our farm business surveys, but State office statisticians also review each State's estimates prior to release for correctness and consistency. We view the State office review as a highly important activity because the State office staff are not only knowledgeable of the data and economic circumstances for their States but also field many of the inquiries about the estimates, particularly from State government and agricultural interest groups.

The balance sheet is also estimated for the U.S. and each State. In addition to developing an estimate for each component of farm business assets and an estimate of the liabilities owed to agricultural lenders, a special challenge to FSFA's financial analysts is to develop estimates of the balance sheet that are compatible with the income estimates. This requires a good deal of communication among staff working on the income and balance sheet estimates, particularly since the estimates are brought together to develop key measures of financial performance such as rates of return, and to provide a perspective about the financial health of the sector.

Another key activity in getting the estimates "on-the-street" is the work done by the estimates staff in conjunction with the Agency's publication and Data Services Staff. The U.S. and State estimates are published in two bulletins that total some 300 plus pages of tables (mainly) and text. Most of the tables are now computer generated (thanks to a great deal of effort by the estimates staff in recent years). But, there are still edit formats and publication requirements to meet and a large volume of tables to check for accuracy. This activity has been made more complex this year because ERS aligns production expenses, asset values and other components of the

estimates with newly released Census of Agriculture data. With release of the 1987 Census data, FSFA staff revised our estimates of income back to prior Census releases. This has expanded the volume of new estimates to be checked and incorporated into results made available through both print and electronic media.

We are aware that provision of a "first" estimate for a year or revisions to estimates made for prior years have a variety of impacts on data users. The branch is itself a user of its own estimates product in both our research and our situation and outlook (current/near-term forecasts) program. For example, in the S&O program, new estimates and prior year revisions have to be incorporated into the Branch's income and balance sheet forecast models and new relationships estimated. And, new estimates have to be reconciled with existing forecasts and prior estimates so that data users can better understand why changes occurred. This Summer FSFA's income forecast project has had to incorporate new data for 1989 along with revisions for 1982-88 in its models in order to provide forecasts for the 1990 calendar year (released August 29) that were consistent with estimates for earlier years.

While focusing on completion of the 1989 estimates, FSFA staff also turned its attention to collection of the data needed to develop the 1990 estimate a year hence. Considerable time has been devoted to developing and pretesting the 1990 FCRS questionnaire. FSFA staff conducted pre-tests in Illinois, Kansas, and New York. Special attention was given to farmers' ability to respond to questions related to soybean and sorghum production practices, commodity program participation, and contractual arrangements used in production and marketing of agricultural commodities.

## Personnel

**Mary Ahearn**, who provided strong leadership for the Branch's farm costs and returns section for the past two



Mary Ahearn

years, has transferred to our indicators research and forecast section. Under Mary's leadership the FCR section developed the Agency's first estimates of the cumulative distribution of the costs of producing major crops. In her new assignment, Mary will focus on developing the Branch's work related to the financial well-being of farm operator households. **Mitch**

**Morehart** has been promoted to be Leader of the Farm

Cost and Returns Section. Mitch, who joined the Branch from Penn State in 1985, has played a major role in the Branch's work to better measure and assess the financial performance of farm businesses (See FCR section below).

## Farm Income Estimation Section

### Research and Analysis

In the cash receipts area, a new methodology for incorporating Commodity Credit Corporation (CCC) transactions into the farm sector accounts was evaluated and implemented over the past year. The procedure now uses both CCC placement and repayment quantities and values instead of net transactions. The change produced offsetting effects in the cash receipts and inventory components of gross farm income and some shifting of these two elements between adjoining calendar years. In addition to its effect on the gross farm income account, the new methodology provides a more accurate conceptual model of income flows in the farm sector economy.

**Linda Farmer** and **Charles Barnard** (FFA) have incorporated methodological changes and new data related to farm dwellings into the 1984-89 estimates of the gross imputed rental value of farm dwellings. The new calculation procedure utilizes market-observed data on rents from the Residential Finance Survey and on dwelling values from the Farm Costs and Returns Survey. The computation of farm dwelling depreciation expense has been simplified and the depreciation rate significantly lowered. Gross imputed rental values of farm operator dwellings were previously computed on a cost basis using the interest rate on farm mortgages as the opportunity cost of equity. Next year, these analysts will investigate the possibility of extending the new procedures to estimates before 1984.

In the production expenses area, the incorporation of 1987 *Census of Agriculture* results caused large revisions in census-benchmarked accounts for the years 1983-88. The impact was lessened, however, by two actions taken by the section that lowered both the 1982 and 1987 Census/FCRS benchmarks. Because the Bureau of the Census concluded that there had been a 6% overcount and/or duplication of farms in the published figures, the section adjusted census estimates to account for this excess, producing lower estimates in all but one expense. The census' impact was further reduced by expanding 1982-87 FCRS results for census-benchmarked accounts to represent the total number of USDA farms. For instance, the 1987 FCRS results published in the *1987 Farm Production Expenditures Summary* represented 1.7 million farms, which was 76% of

the 2.2 million farms tallied in USDA's 1987 June Enumerative Survey (JES).

With Mitch Morehart (FCR) doing the SAS programming, all FCFS estimates used in income and expense accounts for the years 1987-89 were expanded to represent the total number of USDA farms. Because expense accounts depend more heavily on the FCFS, the net effect of this action was a lowering of net income estimates.

### Publications

The section recently completed the first estimates of 1989 farm income and revisions to farm income estimates for 1982-88. These estimates are published in the *National Financial Summary* and *State Financial Summary* volumes of the *Economic Indicators of the Farm Sector* series and are also provided to the Bureau of Economic Analysis for incorporation into the National Income and Product Accounts (NIPA). The August (September?) issue of *Agricultural Income and Finance Situation and Outlook* will carry estimates and analysis of 1988-89 farm income. If funds are available for printing, the Financial Summary's will probably be issued in October and November.

### Economic Indicators Research and Forecasts Section

#### Research & Analysis

Diane Bertelsen is continuing her work of providing the USDA's internal intelligence on the near term forecast of farm income. The situation in the Persian Gulf has created special challenges for the forecast of income, for example, in the forecast of fuel expenses.

#### Papers Presented & Meetings Attended

At the American Agricultural Economics Association meetings in Vancouver, British Columbia:

Mary Ahearn gave two presentations. One paper, "The Role of Pluriactivity in Maintaining income of Farm Operator Households: A Comparison of the U.S., Canada and the European Community" was with Canadian



Service structures and farm machinery

coauthors Tony Fuller and Ray Bollman. The analysis found that pluriactivity was most common in Canada for both farm operators and farm spouses, but not substantially different than in the U.S. The structure of agriculture is very similar between the U.S. and Canada, as well, except the U.S. has a higher percent of small farms and farms with negative incomes at all sizes of farming operations. The EC has many more farms than the U.S. or Canada and a large portion of farms are very small farms. Pluriactivity was less common in the EC for both farm operators and spouses. By size of farm, pluriactivity was relatively constant in each of the areas for spouses, but for operators, as farm size increased, pluriactivity decreased. Data do not exist on the income situation of farm households in the EC, unlike for Canada and the U.S. However, the paper also presented income data for the EC from a special study now underway for 20 areas in the EC selected for their diversity in farming and household situations.

Mary also presented a paper with Canadian coauthors, Dave Culver and Dick Schoney, "Usefulness and Limitations of Cost of Production Estimates: An Example of U.S. and Canadian Wheat Costs." The paper first established that cost of production estimates as they are commonly produced are not directly applicable to the question of competitiveness for two reasons: (1) other factors, like government policies, affect competitiveness and (2) cost of production estimates represent average, not marginal costs. Supply response is based on marginal costs of countries. The paper then argued that cost of production estimates are useful "leading indicators" of competitiveness. However, secondary data users need to be aware that they are rarely constructed for the purpose of

making international comparisons, and that the underlying purpose of an estimate helps determine the estimation methods. Comparability of methods is essential for meaningful comparisons of estimates and some costs or groups of costs are more easily compared than others.

**Robert Dubman** participated in a symposium and discussed "Payments and Millionaire Farmers: Scandal or Smoke". He concluded that millionaire farms (as defined by farm net worth) rely less on direct Government payments as a revenue source, however they receive a disproportionate share of the payments. Robert also presented an ERS seminar on "Inflation and Forecasting Commodity Prices" to complement USDA's long term farm income forecasts.

**Hisham El-Osta** coauthored a paper with Robert Pelly (FCR) and Gerald Whittaker (FCR) entitled "The Technical Efficiency of Corn Farms in the Corn Belt: A Methodological Note". The paper proposed the use of 'Minimization of Absolute Deviation' as a viable alternative to 'Corrected Ordinary Least Squares' in technical efficiency studies. This procedure has the advantage of minimizing the impact of valid outliers (i.e., observations that are unusual but whose occurrence is possible.) Currently, Hisham is working with other staff members on issues that relate to the income distribution of farm households. In addition, Hisham is working on a research project, in conjunction with Dr. Glenn Helmers (The University of Nebraska-Lincoln), to identify the impact of farm size on the cost of reducing risk under a situation of multiple-labor and multiple-machinery complements.

**John E. Jinkins** presented a paper entitled "A Cash Flow Approach to Land Affordability." This paper explored the possibility of using the net cash returns of commodity producers as a leading indicator of farmland prices. John is participating in an ongoing research project on value added created by U.S. agriculture. This study will identify the most appropriate value added measure and estimate the amount of annual value added by major commodity groups. An additional goal of the value added research is to estimate value added in agriculture in different types of nonmetropolitan counties.

## **Upcoming Events**

**Mary Ahearn**, as chairperson of the AAEA Economic Statistics Committee, is leading the organization of a conference on "Economic Accounting for Commodity Costs and Returns." The conference is to be held in Kansas City, MO, February 20-22, 1991. For more details on participating in the conference, please contact Mary.

## **Personnel**

ERS Summer Intern, **Adrienne Laster**, returned to Cornell University in August to complete her degree in Applied Economics and Business Management. During her internship, she was responsible for collecting agricultural statistics, researching the role of farm spouses, and analyzing farm household expenditures. Adrienne learned a great deal from her summer experience at ERS and will eventually be seeking international opportunities.

## **Farm Costs and Returns Section**

### **Research and Analysis**

The Section is continuing to work toward the completion of the estimates of the costs of producing crops for 1987-89 and to prepare for the upcoming 1990 Farm Costs and Returns Survey (FCRS). Ken Mathews and Bill McBride recently returned from Kansas and Illinois after pre-testing the 1990 FCRS questionnaires for grain sorghum and soybeans. Mike Salassi is working with economists from Agriculture Canada on a comparison of the financial performance of representative U.S. and Canadian wheat farms for 1985-89.

### **Publications**

"Corn: State-Level Costs of Production, 1986-88," *AGES 9045*, by Robert A. Pelly and Mir B. Ali and "Barley: State-level Costs of Production, 1986-88," *AGES 9046* present State-level costs and returns estimates for major states producing corn and barley, respectively.

"Do Efficient Producers Use More Chemicals?," *AFO-37* by William D. McBride and Hisham El-Osta (EIRF), examines chemical expenditures by low-cost producers of major commodities. According to their analysis, low-cost producers had lower chemical costs than those of other producers.

"Comparing the 1987 Census of Agriculture with USDA's Farm Costs and Returns Survey: the Case of Government Payments," *AFO-38* by Robert McElroy (FSFA) and Gerald Whittaker compares the results of the two surveys.

### **Papers Presented & Meetings Attended**

Two Section members attended the AAEA meetings in Vancouver. Robert Pelly presented a selected paper, "The Technical Efficiency of Corn Farms in the Corn Belt: A

Methodological Note," by Hisham El-Osta (EIRF), Robert Pelly, and Gerald Whittaker. (See EIRF Section above).

In addition, Gerald was moderator of a symposium on "Millionaire Farmers and the Equity of Payments."

## Personnel

**Mitchell Morehart** is the new leader, Farm Costs and Returns Section, Farm Sector Financial Analysis Branch, ARED.



*Mitchell Morehart*

The Section has research, staff and service work, and situation and outlook analysis responsibilities in the areas of whole-farm and enterprise financial analysis. The section provides annual estimates for the costs of producing major crops and the financial position of farm businesses.

Morehart has worked in this section since joining ERS in 1985. He has had a major role in the development and analysis of the annual Farm Costs and Returns Survey (FCRS). He has authored numerous journal articles and ERS bulletins in the agricultural finance and farm management areas. He recently completed a publication on the development and use of financial ratios for the analysis of farm businesses. This publication provided the first national source of benchmarks for farm operator financial ratios. Morehart received an ERS Excellence Award for work on this publication.

Morehart has a BS in agricultural economics from the University of Delaware and an MS from Rutgers University. He has served on several committees both within ERS and outside the Agency. Morehart is also an active member of the American Agricultural Economics Association and the Southern Agricultural Economics Association.

**Gerald Whittaker**, formerly with the Economic Indicators Research and Forecast Section of the Branch, became a member of the Section in June.

## Farm Financial Analysis Section

### Research and Analysis

Following a review of the integrity of, and procedure used for calculating, the imputed rental value account, the

procedure used to impute gross and net rental values for the services provided by farm sector dwellings has been changed from the traditional ERS procedure based on a user-cost concept to one based on market-observed rent-to-value ratios. In conjunction, dwelling and farm service structure values are now estimated directly from annual Farm Costs and Returns Survey (FCRS) data, rather than estimated traditionally as a proportion of total farm real estate value.

**Charles Barnard** had the lead in this review. The consequences of these changes will be reflected as revisions in the Economic Indicators of the Farm Sector series for 1989 in both the national and state financial summaries. In addition to revisions in gross and net farm income incurred by the new procedure, the real estate components --both assets and debt-- of the farm sector balance sheet for the years 1984 to 1989 will be revised to reflect the FCRS-estimated building values.

## ARED PEOPLE

### Office of the Director

**Kimberly R. Wood**, is Secretary to the Associate Director of the Division, **Richard W. Long**.

Kim has been with ARED since September, 1989. She originally joined ERS in 1988 accepting a job with the Agriculture and Trade Indicators Branch. She worked with ATAD for one year and was soon eligible for a promotion with ARED as a secretary in the Directors' Office. Kim has been in the Federal Government for 3 years.

She enjoys being a secretary but wants to enhance her upward mobility by accepting the risks and taking on the challenges associated with a move to field with a higher income earnings potential.

Kim was born in Waynesboro, Va., she currently resides in Oxon Hill, Maryland with her 3 yr. old son Christopher. Although Kim enjoys being a mother, it's become a real challenge being able to raise a child and manage a career. Away from ARED, she enjoys playing with her son, going out to eat, shopping, and relaxing when she has the time.

## National Economy and History Branch

Joel Schor joined ERS in 1972 as a historian in the Agricultural History Branch, currently a section. Shortly thereafter, Joel published an annotated bibliography on Black Americans in Agriculture. He wrote short articles on the same subject, participated in symposia, task and working forces to strengthen the relationship between the 1890 colleges and USDA. In 1976, he received his doctorate in American History from Howard University and his dissertation: *Henry Highland Garnet, A voice of Black Radicalism in the Nineteenth Century*.

*Joel Schor*  
was published and nominated for the Merle Curti Award in Intellectual History.

Joel chronicled the role of Black Americans in the U.S. Cooperative Extension Service, some of which has been published in journal articles. Joel is assisting in the 1890 centennial celebration by working with Monroe Crew on the Smithsonian exhibit of these colleges, supervising a history of the 1890 Land-Grants prepared by James Smith of Virginia State University, and meeting informally with the 1890 College Presidents.

Joel has completed a manuscript on Biotechnology in Agriculture, a chapter on Farm Credit, and is currently a guest editor of *Agriculture and Human Values*, a journal devoted to contemporary problems in World and American Agriculture.

Joel was born and raised in Philadelphia, received his B.A. from Emory University in 1959 and his M.S. in American History from Georgia State University in 1967. Joel loves fishing and has organized salt water fishing trips for ERS employees, and he has coached the Standard Errors in softball. He is also a community activist; in civil rights (1960); homeowners (1970) and apartment renters (1980's). Though divorced, Joel has three children. He and his fourteen year old son live in Rockville, Maryland.

## Farm Sector Financial Analysis Branch

Bob Williams joined ERS as an economist in the Farm Income Estimation Section in 1985. His work centers around the Cash Receipts project which includes data on



*Joel Schor*



*Bob Williams*

farm inventories, CCC activity, government payments in addition to annual commodity marketing patterns and monthly prices. He also serves as the Section's PC-LAN manager.

Bob works closely with Data Service Center specialists in maintaining and continuously updating the many cash receipt databases. A project revising methods of handling CCC loan data within the cash receipt computations is nearing completion. Research is also underway to access the feasibility of using the section's LAN resources for managing the project once the new OS/2 operating system is available.

Bob received a BS and MS in Agricultural Economics from Auburn University, where he served briefly as a research associate specializing in maintaining large databases. He also studied briefly at the University of Tennessee before joining ERS.

Bob and his beautiful (and very busy) wife Jodi are the proud parents of two marvelous and amazing three year old twin boys. All reside in Dale City, VA as does their cat. They travel often to New York and Florida to visit Grandparents. Minor league baseball, fishing, and visiting playgrounds are favorite pastimes.

## Farm and Rural Economy Branch

Susan Bentley, a sociologist, joined ERS in 1985. She has recently transferred to the Farm Structure Section, where she will be working on an annual report on farm structure in the United States, as well as analysis of farm characteristics in various types of counties.



*Susan Bentley*

Susan will also continue research on the well-being of farm households. For the past four years she has used longitudinal household surveys to examine how farm households adjusted to financial stress during the 1980's. Most recently, Susan presented a paper on farm household adaptations at the VI<sup>th</sup> Congress of the European Association of Agricultural

Economists in The Netherlands. Her work also includes two Agricultural Economic Reports on operators who left farming.

Susan received a B.S. from Cornell University and an M.S. from Penn State, both in rural sociology. Originally from Nova Scotia, Canada, via Scotia, New York, Susan and her husband Harry (also an ERS employee) live in Alexandria, where she enjoys sewing, needlework, reading and playing with their two Shelties.

## Finance and Development Policy Branch

John Redman started work at ERS just over two years ago and works in the general area of State economic performance and State economic development policy. During that time, he has been involved in various research and technical assistance activities. On the research side, John has recently finished two reports on the Title II-A program of the Job Training Partnership Act (JTPA) for the economically disadvantaged and three on recent changes in regional income inequality. He is currently engaged in a study of factors affecting growth and stability in nonmetro areas over the last decade. On the technical assistance side, John participated as a representative of ERS in the Rural Development Policy Academy sponsored by the National Governors' Association. The Academy brought together policy teams from 10 States for an intensive three-month process of strategic policy planning. He also recently testified before the Oregon State legislature on rural development policy issues.

John received a B.S. in International Affairs from the Georgetown University School of Foreign Service and an M.S. in Agricultural Economics from the University of Wisconsin-Madison. He has worked for several Washington, D.C. private consulting firms in the areas of energy, environmental, land use, housing and transportation policy. He also served for a year as a staff member on a U.S. Senate committee. (Editor's Note: John's picture was unavailable at the time of printing.)

## Human Resources and Industry Branch

Donald Bellamy joined ERS in December 1986 as an agricultural economist in the *Income and Well-being* section. Since joining ERS, Donald has concentrated on revising and analyzing persistently low-income county classification, (those counties in the bottom per capita income quintile in selected years from 1950 through 1984). An update of Robert Hoppe's classification will be published as a staff report. Most recently, Donald coauthored an accepted paper on Black Belt counties, to be published in a special issue of the *Review of Black Political Economy*, winter 1990.



Donald Bellamy

Donald grew up in a rural area in southeastern North Carolina. He earned his B.S. in business and economics, and M.S. in agricultural economics from North Carolina Agricultural and Technical University. From 1984 to 1986, he worked in the Department of Agricultural Economics and Rural Sociology at the university as project coordinator/research associate with a small farm

project. He also worked several years with the Farmers Home Administration, where he assisted many families in securing adequate housing.

## EDITOR'S NOTES

If I have learned anything in this my second effort to publish ARED News it is this. That old saw about things getting easier the second time around doesn't hold water but Murphy's Law is unassailable. Any how, thanks to Carolyn Riley, who's help was invaluable but has since departed for greener pastures; my uncle, John Sadler and friends of Halifax VA. and ex editor Chris McGath who still knows more about WordPerfect than anybody ought to.

Bill E.

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